

Koppers Holdings Inc.
Form 10-Q
November 07, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

Commission file number 1-32737

KOPPERS HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State of incorporation)

20-1878963
(IRS Employer Identification No.)

436 Seventh Avenue

Pittsburgh, Pennsylvania 15219

(Address of principal executive offices)

(412) 227-2001

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Common Stock, par value \$0.01 per share, outstanding at October 31, 2013 amounted to 20,331,998 shares.

PART I FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013 (Unaudited)	2012	2013 (Unaudited)	2012
<i>(Dollars in millions, except per share amounts)</i>				
Net sales	\$ 395.2	\$ 387.9	\$ 1,136.5	\$ 1,180.1
Cost of sales (excluding items below)	330.6	331.4	970.0	1,003.2
Depreciation and amortization	7.2	6.7	21.8	21.1
Selling, general and administrative expenses	18.3	19.0	52.2	55.1
Operating profit	39.1	30.8	92.5	100.7
Other income	1.3	0.6	2.8	1.7
Interest expense	6.7	6.9	20.2	20.8
Income before income taxes	33.7	24.5	75.1	81.6
Income taxes	14.1	8.3	29.3	28.5
Income from continuing operations	19.6	16.2	45.8	53.1
Loss from discontinued operations, net of tax benefit of \$0.1, \$0.0, \$0.1 and \$0.2	(0.1)	0.0	(0.1)	(0.1)
Net income	19.5	16.2	45.7	53.0
Net income attributable to noncontrolling interests	0.4	0.2	1.2	1.0
Net income attributable to Koppers	\$ 19.1	\$ 16.0	\$ 44.5	\$ 52.0
Earnings per common share attributable to Koppers common shareholders:				
Basic				
Continuing operations	\$ 0.93	\$ 0.77	\$ 2.16	\$ 2.52
Discontinued operations	0.00	0.00	0.00	(0.01)
Earnings per basic common share	\$ 0.93	\$ 0.77	\$ 2.16	\$ 2.51
Diluted				
Continuing operations	\$ 0.92	\$ 0.77	\$ 2.13	\$ 2.50
Discontinued operations	0.00	0.00	0.00	(0.01)
Earnings per diluted common share	\$ 0.92	\$ 0.77	\$ 2.13	\$ 2.49
Comprehensive income	\$ 26.6	\$ 25.3	\$ 42.3	\$ 60.8
Comprehensive income attributable to noncontrolling interests	0.8	0.3	1.5	1.0
Comprehensive income attributable to Koppers	\$ 25.8	\$ 25.0	\$ 40.8	\$ 59.8
Weighted average shares outstanding <i>(in thousands)</i> :				
Basic	20,577	20,694	20,657	20,709
Diluted	20,801	20,900	20,887	20,940

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Dividends declared per common share	\$ 0.25	\$ 0.24	\$ 0.75	\$ 0.72
-------------------------------------	---------	---------	---------	---------

The accompanying notes are an integral part of these condensed consolidated financial statements.

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>September 30,</i>	<i>December 31,</i>
	<i>2013</i>	<i>2012</i>
	<i>(Unaudited)</i>	
<i>(Dollars in millions, except per share amounts)</i>		
Assets		
Cash and cash equivalents	\$ 72.4	\$ 66.7
Restricted cash	1.5	0.0
Accounts receivable, net of allowance of \$3.5 and \$3.7	182.1	162.7
Inventories, net	166.4	195.8
Deferred tax assets	14.7	15.1
Loan to related party	9.5	9.5
Other current assets	25.6	31.4
Total current assets	472.2	481.2
Equity in non-consolidated investments	6.2	5.8
Property, plant and equipment, net	169.4	161.1
Goodwill	73.4	75.6
Deferred tax assets	12.6	27.2
Other assets	27.3	29.1
Total assets	\$ 761.1	\$ 780.0
Liabilities		
Accounts payable	\$ 94.9	\$ 103.5
Accrued liabilities	66.3	72.1
Dividends payable	5.8	5.6
Total current liabilities	167.0	181.2
Long-term debt	296.4	296.1
Accrued postretirement benefits	71.5	89.9
Other long-term liabilities	41.5	44.7
Total liabilities	576.4	611.9
Commitments and contingent liabilities (Note 16)		
Equity		
Senior Convertible Preferred Stock, \$0.01 par value per share; 10,000,000 shares authorized; no shares issued	0.0	0.0
Common Stock, \$0.01 par value per share; 40,000,000 shares authorized; 21,722,492 and 21,585,129 shares issued	0.2	0.2
Additional paid-in capital	158.8	153.3
Retained earnings	80.6	52.0
Accumulated other comprehensive loss	(25.8)	(22.0)
Treasury stock, at cost, 1,390,494 and 951,026 shares	(50.4)	(32.9)
Total Koppers shareholders' equity	163.4	150.6
Noncontrolling interests	21.3	17.5
Total equity	184.7	168.1
Total liabilities and equity	\$ 761.1	\$ 780.0

The accompanying notes are an integral part of these condensed consolidated financial statements.

KOPPERS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<i>Nine Months Ended September 30,</i>	
	2013	2012
	<i>(Unaudited)</i>	
<i>(Dollars in millions)</i>		
Cash provided by (used in) operating activities:		
Net income	\$ 45.7	\$ 53.0
Adjustments to reconcile net cash provided by operating activities:		
Depreciation and amortization	21.8	21.1
Deferred income taxes	11.1	7.7
Equity income, net of dividends received	(0.4)	(0.9)
Gain on sale of assets	(1.9)	(0.2)
Change in other liabilities	(14.2)	(8.3)
Non-cash interest expense	1.2	1.2
Stock-based compensation	4.7	5.1
Other	0.6	(0.2)
(Increase) decrease in working capital:		
Accounts receivable	(17.9)	(11.4)
Inventories	25.5	(29.9)
Accounts payable	(8.0)	6.7
Accrued liabilities and other working capital	(2.6)	10.6
Net cash provided by operating activities	65.6	54.5
Cash provided by (used in) investing activities:		
Capital expenditures	(29.4)	(15.8)
Net cash proceeds from divestitures and asset sales	2.4	0.7
Net cash used in investing activities	(27.0)	(15.1)
Cash provided by (used in) financing activities:		
Borrowings of revolving credit	97.9	225.9
Repayments of revolving credit	(97.9)	(230.9)
Issuances of Common Stock	0.2	0.8
Repurchases of Common Stock	(17.5)	(8.2)
Proceeds from issuance of noncontrolling interest	2.3	0.0
Payment of deferred financing costs	(1.2)	(0.1)
Dividends paid	(15.3)	(14.5)
Net cash used in financing activities	(31.5)	(27.0)
Effect of exchange rate changes on cash	(1.4)	2.4
Net increase in cash and cash equivalents	5.7	14.8
Cash and cash equivalents at beginning of year	66.7	54.1
Cash and cash equivalents at end of period	\$ 72.4	\$ 68.9

The accompanying notes are an integral part of these condensed consolidated financial statements.

KOPPERS HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (*Unaudited*)

1. Basis of Presentation and New Accounting Standards

The accompanying unaudited condensed consolidated financial statements and related disclosures have been prepared in accordance with accounting principles generally accepted in the United States applicable to interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of Koppers Holdings Inc. and its subsidiaries (Koppers , Koppers Holdings or the Company) financial position and interim results as of and for the periods presented have been included. All such adjustments are of a normal recurring nature unless disclosed otherwise. Because the Company's business is seasonal, results for interim periods are not necessarily indicative of those that may be expected for a full year. The Condensed Consolidated Balance Sheet for December 31, 2012 has been summarized from the audited balance sheet contained in the Annual Report on Form 10-K for the year ended December 31, 2012.

The financial information included herein should be read in conjunction with the Company's audited consolidated financial statements and related notes included in its Annual Report on Form 10-K for the year ended December 31, 2012.

The Financial Accounting Standards Board issued Accounting Standards Update No. 2013-02, *Reporting of Amounts Reclassified Out of Other Comprehensive Income (ASU 2013-2)*. The amendments in ASU 2013-02 require entities to provide additional disclosures regarding amounts that have been reclassified out of other comprehensive income during the periods presented either on the face of the financial statements or in the notes to the financial statements. ASU 2013-02 is effective for interim and annual periods beginning after December 15, 2012. We have elected to present such information in the notes to the financial statements (see Note 5).

2. Dividends

On November 6, 2013, the Company's board of directors declared a quarterly dividend of 25 cents per common share, payable on January 6, 2014 to shareholders of record as of November 18, 2013.

3. Discontinued operations

In December 2011, the Company ceased manufacturing operations at its carbon black facility located in Kurnell, Australia. This decision was made as a result of deteriorating business conditions including raw material availability and cost, competition in the export markets due to the strength of the Australian dollar and a variety of other factors. The Company estimates that total future closure costs related to this facility will be approximately \$0.3 million. The closure is expected to be completed during 2015. The facility is part of the Carbon Materials and Chemicals segment.

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Details of the restructuring activities and related reserves are as follows:

<i>(Dollars in millions)</i>	<i>Severance and employee benefits</i>	<i>Environmental remediation</i>	<i>Inventory writedowns</i>	<i>Site demolition</i>	<i>Other</i>	<i>Total</i>
Reserve at December 31, 2011	\$ 1.8	\$ 6.7	\$ 0.0	\$ 6.2	\$ 1.2	\$ 15.9
Charges	0.1	0.0	0.4	0.0	0.0	0.5
Costs charged against assets	0.0	0.0	(0.4)	0.0	0.0	(0.4)
Reversal of accrued charges	0.0	0.0	0.0	0.0	(0.6)	(0.6)
Cash expenditures	(1.7)	(0.1)	0.0	(0.4)	(0.5)	(2.7)
Currency translation	0.0	0.1	0.0	0.1	0.0	0.2
Reserve at December 31, 2012	\$ 0.2	\$ 6.7	\$ 0.0	\$ 5.9	\$ 0.1	\$ 12.9
Reversal of accrued charges	(0.1)	0.0	0.0	(0.3)	0.0	(0.4)
Cash expenditures	0.0	(0.1)	0.0	(1.5)	0.0	(1.6)
Currency translation	0.0	(0.7)	0.0	(0.5)	0.0	(1.2)
Reserve at September 30, 2013	\$ 0.1	\$ 5.9	\$ 0.0	\$ 3.6	\$ 0.1	\$ 9.7

Net sales and operating profit from discontinued operations for the three months and nine months ended September 30, 2013 and 2012 consist of the following amounts:

	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
Net sales	\$ 0.0	\$ 0.3	\$ 0.0	\$ 5.7
Operating loss	(0.1)	(0.1)	(0.2)	(0.3)

4. Fair Value Measurements

Carrying amounts and the related estimated fair values of the Company's financial instruments as of September 30, 2013 and December 31, 2012 are as follows:

<i>(Dollars in millions)</i>	<i>September 30, 2013</i>		<i>December 31, 2012</i>	
	<i>Fair Value</i>	<i>Carrying Value</i>	<i>Fair Value</i>	<i>Carrying Value</i>
Financial assets:				
Cash and cash equivalents, including restricted cash	\$ 73.9	\$ 73.9	\$ 66.7	\$ 66.7
Investments and other assets ^(a)	1.4	1.4	1.4	1.4
Financial liabilities:				
Long-term debt	\$ 325.3	\$ 296.4	\$ 331.1	\$ 296.1

(a) Excludes equity method investments.

Cash and cash equivalents, including restricted cash The carrying amount approximates fair value because of the short maturity of those instruments.

Investments and other assets Represents the broker-quoted cash surrender value on universal life insurance policies. This asset is classified as Level 2 in the valuation hierarchy and is measured from values received from financial institutions.

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Debt The fair value of the Company's long-term debt is estimated based on the market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities (Level 2). The fair values of the revolving credit facility approximate carrying value due to the variable rate nature of these instruments.

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

5. Comprehensive Income and Equity

Total comprehensive income for the three and nine months ended September 30, 2013 and 2012 is summarized in the table below:

<i>(Dollars in millions)</i>	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
Net income	\$ 19.5	\$ 16.2	\$ 45.7	\$ 53.0
Other comprehensive income (loss):				
Change in currency translation adjustment	5.6	5.3	(0.4)	1.9
Change in foreign currency transactions of long-term subsidiary investments	0.3	2.5	(6.6)	2.2
Change in unrecognized pension transition asset, net of tax benefit of \$0.0, \$0.1, \$0.0 and \$0.1	0.0	(0.1)	0.0	(0.2)
Change in unrecognized prior service cost, net of tax expense of \$0.0, \$0.0, \$0.0 and \$0.0	0.0	0.1	0.1	0.1
Change in unrecognized pension net loss, net of tax expense of \$0.8, \$0.8, \$2.3 and \$2.3	1.2	1.3	3.5	3.8
Total comprehensive income	26.6	25.3	42.3	60.8
Less: comprehensive income attributable to noncontrolling interests	0.8	0.3	1.5	1.0
Comprehensive income attributable to Koppers	\$ 25.8	\$ 25.0	\$ 40.8	\$ 59.8

Amounts reclassified from accumulated other comprehensive income to net income consist of amounts shown for changes in unrecognized pension net loss, unrecognized prior service cost and unrecognized transition asset. These components of accumulated other comprehensive income are included in the computation of net periodic pension cost as disclosed in Note 12 Pensions and Postretirement Benefit Plans.

The following tables present the change in equity for the nine months ended September 30, 2013 and 2012, respectively:

<i>(Dollars in millions)</i>	<i>Total Koppers Shareholders</i>		<i>Noncontrolling Interests</i>	<i>Total Equity</i>
	<i>Equity</i>			
Balance at December 31, 2012	\$ 150.6	\$	17.5	\$ 168.1
Net income	44.5		1.2	45.7
Issuance of common stock	0.2		0.0	0.2
Employee stock plans	5.2		0.0	5.2
Other comprehensive income (loss)	(3.7)		0.3	(3.4)
Dividends	(15.9)		0.0	(15.9)
Investment in noncontrolling interests	0.0		2.3	2.3
Repurchases of common stock	(17.5)		0.0	(17.5)
Balance at September 30, 2013	\$ 163.4	\$	21.3	\$ 184.7

<i>(Dollars in millions)</i>	<i>Total Koppers Shareholders</i>		<i>Noncontrolling Interests</i>	<i>Total Equity</i>
	<i>Equity</i>			
Balance at December 31, 2011	\$ 94.8	\$	12.4	\$ 107.2
Net income	52.0		1.0	53.0
Issuance of common stock	0.8		0.0	0.8
Employee stock plans	5.4		0.0	5.4

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Other comprehensive income	7.8	0.0	7.8
Dividends	(15.2)	0.0	(15.2)
Repurchases of common stock	(8.2)	0.0	(8.2)
Balance at September 30, 2012	\$137.4	\$13.4	\$150.8

6. Earnings per Common Share

The computation of basic earnings per common share for the periods presented is based upon the weighted average number of common shares outstanding during the periods. The computation of diluted earnings per common share includes the effect of non-vested nonqualified stock options and restricted stock units assuming such options and stock units were outstanding common shares at the beginning of the period. The effect of antidilutive securities is excluded from the computation of diluted earnings per common share.

The following table sets forth the computation of basic and diluted earnings per common share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<i>(Dollars in millions, except share amounts, in thousands, and per share amounts)</i>				
Net income attributable to Koppers	\$ 19.1	\$ 16.0	\$ 44.5	\$ 52.0
Less: loss from discontinued operations	(0.1)	0.0	(0.1)	(0.1)
Income from continuing operations attributable to Koppers	\$ 19.2	\$ 16.0	\$ 44.6	\$ 52.1
Weighted average common shares outstanding:				
Basic	20,577	20,694	20,657	20,709
Effect of dilutive securities	224	206	230	231
Diluted	20,801	20,900	20,887	20,940
Earnings per common share – continuing operations:				
Basic earnings per common share	\$ 0.93	\$ 0.77	\$ 2.16	\$ 2.52
Diluted earnings per common share	0.92	0.77	2.13	2.50
Other data:				
Antidilutive securities excluded from computation of diluted earnings per common share	254	203	236	191

7. Stock-based Compensation

The amended and restated 2005 Long-Term Incentive Plan (the "LTIP") provides for the grant to eligible persons of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance awards, dividend equivalents and other stock-based awards, which are collectively referred to as the awards.

Under the LTIP, the board of directors granted restricted stock units and performance stock units (collectively, the "stock units") to certain employee participants each year starting in 2007. The restricted stock units vest on the third anniversary of the grant date, assuming continued employment by the participant. Performance stock units granted in 2011 have a two-year performance objective. Performance stock units granted after 2011 have three-year performance objectives. Regardless of whether the measurement period for the applicable performance objective is two or three years, all performance stock units have a three-year period for vesting (if the applicable performance objective is obtained). The applicable performance objective is based upon a multi-year cumulative value creation calculation commencing on the first day of each grant year. The number of performance stock units granted represents the target award and participants have the ability to earn between zero and 150 percent of the target award based upon actual performance. If minimum performance criteria are not achieved, no performance stock units will vest.

Dividends declared on the Company's common stock during the restriction period of the stock units are credited at equivalent value as additional stock units and become payable as additional common shares upon vesting. In the event of termination of employment, other than retirement, death or disability, any non-vested stock units are forfeited, including additional stock units credited from dividends. In the event of termination of employment due to retirement, death or disability, pro-rata vesting of the stock units over the service period will result for most participants. There are special vesting provisions for the stock units related to a change in control.

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Restricted stock units that vest immediately or have one-year vesting periods are also issued under the LTIP to members of the board of directors in connection with annual director compensation and, from time to time, are issued to members of management in connection with employee compensation.

Compensation expense for non-vested stock units is recorded over the vesting period based on the fair value at the date of grant. The fair value of stock units is the market price of the underlying common stock on the date of grant.

The following table shows a summary of the performance stock units as of September 30, 2013:

<i>Performance Period</i>		<i>Minimum Shares</i>	<i>Target Shares</i>	<i>Maximum Shares</i>
2012	2014	0	98,453	147,680
2013	2015	0	95,858	143,787

The following table shows a summary of the status and activity of non-vested stock awards for the nine months ended September 30, 2013:

	<i>Restricted Stock Units</i>	<i>Performance Stock Units</i>	<i>Total Stock Units</i>	<i>Weighted Average Grant Date Fair Value per Unit</i>
Non-vested at December 31, 2012	136,098	268,677	404,775	\$ 36.11
Granted	62,276	97,318	159,594	\$ 42.64
Credited from dividends	3,526	7,064	10,590	\$ 35.17
Performance stock unit adjustment	0	43,921	43,921	\$ 40.09
Vested	(46,314)	(85,798)	(132,112)	\$ 29.81
Forfeited	(2,059)	(3,084)	(5,143)	\$ 40.34
Non-vested at September 30, 2013	153,527	328,098	481,625	\$ 40.29

Stock options to most executive officers vest and become exercisable upon the completion of a three-year service period commencing on the grant date. The stock options have a term of 10 years. In the event of termination of employment, other than retirement, death or disability, any non-vested options are forfeited for most participants. In the event of termination of employment due to retirement, death or disability, pro-rata vesting of the options over the service period will result for most participants. There are special vesting provisions for the stock options related to a change in control.

In accordance with accounting standards, compensation expense for non-vested stock options is recorded over the vesting period based on the fair value at the date of grant. The fair value of stock options on the date of grant is calculated using the Black-Scholes-Merton model and the assumptions listed below:

	<i>February 2013 Grant</i>	<i>February 2012 Grant</i>	<i>February 2011 Grant</i>
Grant date price per share of option award	\$ 42.76	\$ 38.21	\$ 40.26
Expected dividend yield per share	2.75%	2.75%	2.50%
Expected life in years	6.5	6.5	6.5
Expected volatility	53.77%	55.06%	60.00%
Risk-free interest rate	1.29%	1.34%	3.02%
Grant date fair value per share of option awards	\$ 17.28	\$ 15.82	\$ 19.28

The dividend yield is based on the Company's current and prospective dividend rate which calculates a continuous dividend yield based upon the market price of the underlying common stock. The expected life in years is based on the simplified method permitted under Securities and Exchange Commission Staff Accounting Bulletin No. 14d.2 which calculates the average of the weighted vesting term and the contractual term of the option. This method was selected due to the lack of historical exercise data with respect to the Company. Expected volatility is based on

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

the historical volatility of the Company's common stock and the historical volatility of certain other similar public companies. The risk-free interest rate is based on U.S. Treasury bill rates for the expected life of the option.

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

The following table shows a summary of the status and activity of stock options for the nine months ended September 30, 2013:

	<i>Options</i>	<i>Weighted Average Exercise Price per Option</i>	<i>Weighted Average Remaining Contractual Term (in years)</i>	<i>Aggregate Intrinsic Value (in millions)</i>
Outstanding at December 31, 2012	331,799	\$ 34.07		
Granted	94,532	\$ 42.76		
Exercised	(5,251)	\$ 39.04		
Outstanding at September 30, 2013	421,080	\$ 35.96	7.11	\$ 2.8
Exercisable at September 30, 2013	167,565	\$ 29.15	4.94	\$ 2.3

Total stock-based compensation expense recognized for the three and nine months ended September 30, 2013 and 2012 is as follows:

<i>(Dollars in millions)</i>	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
Stock-based compensation expense recognized:				
Selling, general and administrative expenses	\$ 1.9	\$ 1.9	\$ 4.7	\$ 5.1
Less related income tax benefit	0.8	0.8	1.9	2.0
	\$ 1.1	\$ 1.1	\$ 2.8	\$ 3.1

As of September 30, 2013, total future compensation expense related to non-vested stock-based compensation arrangements totaled \$8.0 million and the weighted-average period over which this cost is expected to be recognized is approximately 21 months.

8. Segment Information

The Company has two reportable segments: Carbon Materials and Chemicals and Railroad and Utility Products and Services. The Company's reportable segments are business units that offer different products. The reportable segments are each managed separately because they manufacture and distribute distinct products with different production processes. The business units have been aggregated into two reportable segments since management believes the long-term financial performance of these business units is affected by similar economic conditions.

The Company's Carbon Materials and Chemicals segment is primarily a manufacturer of carbon pitch, naphthalene, phthalic anhydride, creosote and carbon black feedstock. Carbon pitch is a critical raw material used in the production of aluminum and for the production of steel in electric arc furnaces. Naphthalene is used for the production of phthalic anhydride and as a surfactant in the production of concrete. Phthalic anhydride is used in the production of plasticizers, polyester resins and alkyd paints. Creosote is used in the treatment of wood and carbon black feedstock is used in the production of carbon black.

The Company's Railroad and Utility Products and Services segment sells treated and untreated wood products, manufactured products and services primarily to the railroad and public utility markets. Railroad products include procuring and treating items such as crossties, switch ties and various types of lumber used for railroad bridges and crossings and the manufacture of rail joint bars. Utility products include transmission and distribution poles and pilings.

The Company evaluates performance and determines resource allocations based on a number of factors, the primary measure being operating profit or loss from operations. Operating profit does not include equity in earnings of affiliates, other income, interest expense or income taxes. Operating profit also excludes the operating costs of Koppers Holdings Inc., the parent company of Koppers Inc. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment transactions are eliminated in consolidation.

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

The following table sets forth certain sales and operating data, net of all intersegment transactions, for the Company's segments for the periods indicated:

<i>(Dollars in millions)</i>	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
Revenues from external customers:				
Carbon Materials & Chemicals	\$ 241.6	\$ 241.1	\$ 692.4	\$ 757.3
Railroad & Utility Products	153.6	146.8	444.1	422.8
Total	\$ 395.2	\$ 387.9	\$ 1,136.5	\$ 1,180.1
Intersegment revenues:				
Carbon Materials & Chemicals	\$ 23.3	\$ 27.0	\$ 70.9	\$ 83.8
Depreciation and amortization expense:				
Carbon Materials & Chemicals	\$ 4.5	\$ 4.2	\$ 13.5	\$ 12.8
Railroad & Utility Products	2.7	2.5	8.3	8.3
Total	\$ 7.2	\$ 6.7	\$ 21.8	\$ 21.1
Operating profit:				
Carbon Materials & Chemicals	\$ 21.8	\$ 18.4	\$ 47.4	\$ 65.1
Railroad & Utility Products	17.8	12.8	46.6	36.9
Corporate	(0.5)	(0.4)	(1.5)	(1.3)
Total	\$ 39.1	\$ 30.8	\$ 92.5	\$ 100.7

The following table sets forth certain tangible and intangible assets allocated to each of the Company's segments as of the dates indicated:

<i>(Dollars in millions)</i>	<i>September 30,</i>	<i>December 31,</i>
	<i>2013</i>	<i>2012</i>
Segment assets:		
Carbon Materials and Chemicals	\$ 531.2	\$ 516.3
Railroad and Utility Products and Services	181.5	205.0
All other	48.4	58.7
Total	\$ 761.1	\$ 780.0
Goodwill:		
Carbon Materials and Chemicals	\$ 68.5	\$ 70.2
Railroad and Utility Products and Services	4.9	5.4
Total	\$ 73.4	\$ 75.6

9. Income Taxes

Effective Tax Rate

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Income taxes as a percentage of pretax income before discrete items was 46.4 percent and 35.2 percent for the three months ended September 30, 2013 and 2012, respectively. Discrete items included in income taxes for the three months ended September 30, 2013 consisted of a net tax benefit of \$1.6 million primarily due to tax benefits on amended tax returns for prior years and changes in unrecognized tax benefits offset by the effect of a United Kingdom corporate tax rate reduction. Discrete items included in income taxes for the three months ended September 30, 2012 consisted of a net tax benefit of \$0.3 million due primarily to changes in unrecognized tax benefits partially offset by the effect of a United Kingdom corporate tax rate change and tax return to provision adjustments.

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

The effective tax rate for the third quarter of 2013 differs from the U.S. federal statutory rate of 35.0 percent due to the taxes on foreign earnings (+10.2 percent), state taxes (+1.8 percent), uncertain tax positions (+0.9 percent) and nondeductible expenses (+0.5 percent) partially offset by the domestic manufacturing deduction (-1.8 percent) and tax credits (-0.2 percent). With respect to the third quarter of 2012, the effective tax rate differs from the U.S. federal statutory rate of 35.0 percent due to state taxes (+1.6 percent), nondeductible expenses (+0.4 percent) and unrecognized tax benefits (+0.7 percent) partially offset by the domestic manufacturing deduction (-2.5 percent).

Income taxes as a percentage of pretax income before discrete items was 43.0 percent and 34.7 percent for the nine months ended September 30, 2013 and 2012, respectively. Discrete items included in income taxes for the nine months ended September 30, 2013 consisted of a net tax benefit of \$3.0 million primarily due to tax benefits on amended tax returns for prior years, changes in unrecognized tax benefits, and the fact that the Company is no longer subject to potential income tax examinations for certain years. Discrete items included in income taxes for the nine months ended September 30, 2012 consisted of net tax expense of \$0.2 million due primarily to a tax reserve associated with our 2011 European restructuring project partially offset by amended tax returns and deferred tax adjustments.

The effective tax rate for the first nine months of 2013 differs from the U.S. federal statutory rate of 35.0 percent primarily due to the taxes on foreign earnings (+6.6 percent), state taxes (+1.8 percent), uncertain tax positions (+0.8 percent) and nondeductible expenses (+0.5 percent) partially offset by the domestic manufacturing deduction (-1.7 percent). With respect to the first nine months of 2012, the effective tax rate differs from the U.S. federal statutory rate of 35.0 percent primarily due to state taxes (+1.6 percent), nondeductible expenses (+0.7 percent) and unrecognized tax benefits (+0.8 percent) partially offset by taxes on foreign earnings (-1.5 percent) and the domestic manufacturing deduction (-1.9 percent).

The income tax provision for interim periods is based on an estimated annual effective tax rate, which requires management to make its best estimate of annual pretax income by domestic and foreign jurisdictions and other items that impact taxable income. During the year, management regularly updates estimates based on changes in various factors such as product prices, shipments, product mix, operating and administrative costs, earnings mix by taxable jurisdiction, repatriation of foreign earnings, uncertain tax positions and the ability to claim tax credits such as the non-conventional fuel tax credit. To the extent that actual results vary from the estimates at the end of the third quarter, the actual tax provision recognized for 2013 could be materially different from the forecasted annual tax provision as of the end of the third quarter.

Uncertain Tax Positions

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, individual U.S. state jurisdictions and non-U.S. jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2009.

As of September 30, 2013 and December 31, 2012, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate, was approximately \$4.4 million and \$5.5 million, respectively. Unrecognized tax benefits totaled \$6.8 million and \$7.7 million as of September 30, 2013 and December 31, 2012, respectively. The Company recognizes interest expense and any related penalties from uncertain tax positions in income tax expense. As of September 30, 2013 and December 31, 2012 the Company had accrued approximately \$1.1 million and \$1.3 million for interest and penalties.

10. Inventories

Net inventories as of September 30, 2013 and December 31, 2012 are summarized in the table below:

	<i>September 30,</i>	<i>December 31,</i>
	<i>2013</i>	<i>2012</i>
<i>(Dollars in millions)</i>		
Raw materials	\$ 103.0	\$ 118.2
Work in process	18.3	20.0
Finished goods	100.1	109.7
	221.4	247.9
Less revaluation to LIFO	55.0	52.1
Net	\$ 166.4	\$ 195.8

11. Property, Plant and Equipment

Property, plant and equipment as of September 30, 2013 and December 31, 2012 are summarized in the table below:

	<i>September 30,</i>	<i>December 31,</i>
	<i>2013</i>	<i>2012</i>
<i>(Dollars in millions)</i>		
Land	\$ 9.2	\$ 7.0
Buildings	35.7	36.4
Machinery and equipment	639.3	616.6
	684.2	660.0
Less accumulated depreciation	514.8	498.9
Net	\$ 169.4	\$ 161.1

In February 2012, approximately 400 tons of carbon pitch leaked from a storage tank at the Company's terminal facility in Portland, Victoria, Australia. All of the coal tar pitch was contained within the tank farm area and was recovered.

Insurance recoveries associated with the leak were a net \$0.2 million and \$1.2 million for the three and nine months ended September 30, 2013, respectively. Costs directly associated with the leak were \$1.3 million and \$3.7 million for the three and nine months ended September 30, 2012, respectively, and include inventory losses, emergency response expenses, incremental logistics costs, and material clean-up and removal expenses, net of insurance recoveries.

In October 2013, the Company was informed by the Tangshan Municipal People's Government (Tangshan Government) of its intention to close the two coke batteries owned and operated by the Tangshan Iron and Steel Group Co., Ltd (TISCO) in Tangshan, China. The Tangshan Government has ordered the closure of these coke batteries by March 15, 2014 in an effort to improve the air quality in the Tangshan area. The Company's 60-percent owned subsidiary, Koppers (China) Carbon & Chemical Company Limited (KCCC) is located within TISCO's property and relies on its operations for a significant portion of raw material supply, utilities and other shared services. At the same time, the Tangshan Government has requested that KCCC consider the relocation of its operations and offered assistance to KCCC in this regard, although no specific details have been provided to the Company on the extent and nature of such assistance. Closure of the TISCO coke batteries could impact KCCC's ability to operate its coal tar distillation plant on a long-term basis. The Company has entered discussions with its non-controlling partner in KCCC, TISCO, and the Tangshan Government to evaluate its options, which include remaining at the current location and continuing to operate or remaining at its current location on a temporary basis and transitioning to a new location.

The closure or relocation of KCCC's coal tar distillation facility would have a material adverse effect on the Company's business, financial condition, cash flow and results of operations. For the most recent year ended December 31, 2012, KCCC contributed operating profit of approximately \$3.5 million after deducting profit attributable to non-controlling interests. As of September 30, 2013, the net book value of fixed assets was approximately \$15 million. The Company believes it would be able to continue fulfilling current domestic Chinese customers with capacity at Koppers (Jiangsu) Carbon Chemical Company Limited, which is scheduled for production start-up in mid-2014. The Company further believes it would be able to continue to supply all its export commitments through its other 30-percent owned Chinese company and other commercial relationships in China. However, the Company's margin on export sales would be negatively affected due to its lower ownership interest in these companies.

12. Pensions and Postretirement Benefit Plans

The Company and its subsidiaries maintain a number of defined benefit and defined contribution plans to provide retirement benefits for employees in the U.S., as well as employees outside the U.S. These plans are maintained and contributions are made in accordance with the Employee Retirement Income Security Act of 1974 (ERISA), local statutory law or as determined by the board of directors. The defined benefit pension plans generally provide benefits based upon years of service and compensation. Pension plans are funded except for three domestic non-qualified defined benefit pension plans for certain key executives.

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

All qualified defined benefit pension plans for salaried employees have been closed to new participants and a number of plans, including most plans for hourly employees, have been frozen or are scheduled to be frozen in the next two years. Accordingly, these pension plans no longer accrue additional years of service or recognize future increases in compensation for benefit purposes. In addition, a number of pension plans are subject to a soft freeze which precludes new employees from entering the defined benefit pension plans.

The defined contribution plans generally provide retirement assets to employee participants based upon employer and employee contributions to the participant's individual investment account. The Company also provides retiree medical insurance coverage to certain U.S. employees and a life insurance benefit to most U.S. employees. For salaried employees, the retiree medical and retiree insurance plans have been closed to new participants.

The following table provides the components of net periodic benefit cost for the pension plans and other benefit plans for the three and nine months ended September 30, 2013 and 2012:

<i>(Dollars in millions)</i>	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
Service cost	\$ 0.9	\$ 0.8	\$ 2.6	\$ 2.6
Interest cost	2.7	2.8	8.0	8.0
Expected return on plan assets	(3.2)	(2.7)	(9.5)	(8.0)
Amortization of prior service cost	0.0	0.0	0.1	0.1
Amortization of net loss	1.9	2.0	5.7	6.1
Amortization of transition asset	0.0	(0.0)	0.0	(0.2)
Net periodic benefit cost	\$ 2.3	\$ 2.9	\$ 6.9	\$ 8.6
Defined contribution plan expense	\$ 1.2	\$ 1.1	\$ 4.1	\$ 3.8
Multi-employer pension plan expense	0.1	0.1	0.3	0.3
Other postretirement benefit plans	0.1	0.2	0.4	0.5

13. Debt

Debt at September 30, 2013 and December 31, 2012 was as follows:

<i>(Dollars in millions)</i>	<i>Weighted Average Interest Rate</i>	<i>Maturity</i>	<i>September 30, 2013</i>	<i>December 31, 2012</i>
	Revolving Credit Facility	0.00%	2018	\$ 0.0
Senior Notes	7 ⁷ / ₈ %	2019	296.4	296.1
Total debt			296.4	296.1
Less short term debt and current maturities of long-term debt			0.0	0.0
Long-term debt			\$ 296.4	\$ 296.1

Revolving Credit Facility

The Koppers Inc. revolving credit facility agreement provides for a revolving credit facility of up to \$300.0 million at variable rates. In March 2013, the Company extended the revolving credit agreement term to March 27, 2018. Borrowings under the revolving credit facility are secured by a first priority lien on substantially all of the assets of Koppers Inc. and its material domestic subsidiaries. The revolving credit facility contains certain covenants for Koppers Inc. and its restricted subsidiaries that limit capital expenditures, additional indebtedness, liens, dividends, investments or acquisitions. In addition, such covenants give rise to events of default upon the failure by Koppers Inc. and its restricted subsidiaries to meet certain financial ratios. Commitment fees totaled \$0.3 million and \$0.2 million for the three months ended

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

September 30, 2013 and 2012 and \$0.8 million and \$0.7 million for the nine months ended September 30, 2013 and 2012, respectively. Commitment fees are charged to interest expense.

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

As of September 30, 2013, the Company had \$286.9 million of unused revolving credit availability for working capital purposes after restrictions from certain letter of credit commitments and other covenants. As of September 30, 2013, \$9.1 million of commitments were utilized by outstanding letters of credit.

Senior Notes

The Koppers Inc. 7⁷/₈ percent Senior Notes due 2019 (the Senior Notes) were issued on December 1, 2009 at an offering price of 98.311 percent of face value, or \$294.9 million and have a principal amount at maturity of \$300.0 million. The Senior Notes have an effective interest rate yield of 8¹/₈ percent per annum. The Senior Notes are unsecured senior obligations that are fully and unconditionally guaranteed by Koppers Holdings and certain of Koppers Inc.'s wholly-owned domestic subsidiaries. The Senior Notes are structurally subordinated to indebtedness under the revolving credit facility.

Interest on the Senior Notes is payable semiannually on December 1 and June 1 each year. On or after December 1, 2014, the Company is entitled to redeem all or a portion of the Senior Notes at a redemption price of 103.938 percent of principal value, declining annually in ratable amounts until the redemption price is equivalent to the principal value on December 1, 2017.

The indenture governing the Senior Notes includes customary covenants that restrict, among other things, the ability of Koppers Inc. and its restricted subsidiaries to incur additional debt, pay dividends or make certain other restricted payments, incur liens, merge or sell all or substantially all of the assets of Koppers Inc. or its subsidiaries or enter into various transactions with affiliates.

14. Asset Retirement Obligations

The Company recognizes asset retirement obligations for the removal and disposal of residues; dismantling of certain tanks required by governmental authorities; cleaning and dismantling costs for owned rail cars; and cleaning costs for leased rail cars and barges. The following table reflects changes in the carrying values of asset retirement obligations:

	<i>September 30,</i> 2013	<i>December 31,</i> 2012
<i>(Dollars in millions)</i>		
Balance at beginning of year	\$ 21.5	\$ 21.3
Accretion expense	0.8	1.1
Revision in estimated cash flows, net	0.0	1.8
Cash expenditures	(4.1)	(3.0)
Currency translation	(0.5)	0.3
Balance at end of period	\$ 17.7	\$ 21.5

15. Deferred Revenue from Extended Product Warranty Liabilities

The Company defers revenues associated with extended product warranty liabilities based on historical loss experience and sales of extended warranties on certain products. The following table reflects changes in the carrying values of deferred revenue:

	<i>September 30,</i> 2013	<i>December 31,</i> 2012
<i>(Dollars in millions)</i>		
Balance at beginning of year	\$ 3.9	\$ 4.8
Revenue earned	(0.5)	(0.9)
Balance at end of period	\$ 3.4	\$ 3.9

16. Commitments and Contingent Liabilities

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

The Company and its subsidiaries are involved in litigation and various proceedings relating to environmental laws and regulations and toxic tort, product liability and other matters. Certain of these matters are discussed below. The ultimate resolution of these contingencies is subject to significant uncertainty and should the Company or its subsidiaries fail to prevail in any of these legal matters or should several of these legal matters be resolved against the Company or its subsidiaries in the

same reporting period, these legal matters could, individually or in the aggregate, be material to the consolidated financial statements.

Legal Proceedings

Coal Tar Pitch Cases. Koppers Inc., along with other defendants, is currently a defendant in lawsuits filed in three states in which the plaintiffs claim they suffered a variety of illnesses (including cancer) as a result of exposure to coal tar pitch sold by the defendants. There are approximately 110 plaintiffs in 60 cases pending as of September 30, 2013 as compared to 136 plaintiffs in 75 cases pending as of December 31, 2012. As of September 30, 2013, there are a total of 56 cases pending in state court in Pennsylvania, three in Arkansas, and one case pending in state court in Tennessee.

The plaintiffs in all 60 pending cases seek to recover compensatory damages, while plaintiffs in 55 cases also seek to recover punitive damages. The plaintiffs in the 56 cases filed in Pennsylvania state court seek unspecified damages in excess of the court's minimum jurisdictional limit. The plaintiffs in the Arkansas state court cases each seek compensatory damages in excess of \$50,000 in addition to punitive damages. The plaintiffs in the Tennessee state court case each seek damages of \$15.0 million. The other defendants in these lawsuits vary from case to case and include companies such as Beazer East, Inc., United States Steel Corporation, Honeywell International Inc., Vertellus Specialties Inc., Dow Chemical Company, UCAR Carbon Company, Inc., Exxon Mobil Corporation, SGL Carbon Corporation and Alcoa, Inc. Discovery is proceeding in these cases. No trial dates have been set in any of these cases.

The Company has not provided a reserve for these lawsuits because, at this time, the Company cannot reasonably determine the probability of a loss, and the amount of loss, if any, cannot be reasonably estimated. The timing of resolution of these cases cannot be reasonably determined. Although Koppers Inc. is vigorously defending these cases, an unfavorable resolution of these matters may have a material adverse effect on the Company's business, financial condition, cash flows and results of operations.

Gainesville. Koppers Inc. operated a utility pole treatment plant in Gainesville from December 29, 1988 until its closure in 2009. The property upon which the utility pole treatment plant was located was sold by Koppers Inc. to Beazer East, Inc. in 2010.

In November 2010, a class action complaint was filed in the Circuit Court of the Eighth Judicial Circuit located in Alachua County, Florida by residential real property owners located in a neighborhood west of and immediately adjacent to the former utility pole treatment plant in Gainesville. The complaint named Koppers Holdings Inc., Koppers Inc., Beazer East and several other parties as defendants. In a Second Amended Complaint, plaintiffs define the putative class as consisting of all persons who are present record owners of residential real properties located in an area within a two-mile radius of the former Gainesville wood treating plant. Plaintiffs further allege that chemicals and contaminants from the Gainesville plant have contaminated real properties within the two mile geographical area, have caused property damage (diminution in value) and have placed residents and owners of the putative class properties at an elevated risk of exposure to and injury from the chemicals at issue. The Second Amended complaint seeks damages for diminution in property values, the establishment of a medical monitoring fund and punitive damages.

The case was removed to the United States District Court for the Northern District of Florida in December 2010. On May 31, 2013, the Court entered a scheduling order for class certification, which sets out discovery deadlines leading up to motions for class certification and opposition to those motions. Koppers Holdings Inc. filed a motion to dismiss alleging that the Court lacks personal jurisdiction over it, and on September 9, 2013, the district court granted the motion and dismissed Koppers Holdings as a defendant. On October 8, 2013, the plaintiffs filed a notice of appeal with the district court with respect to the dismissal order. Koppers Holdings Inc. has filed a motion to dismiss plaintiffs' appeal.

The Company has not provided a reserve for this matter because, at this time, it cannot reasonably determine the probability of a loss, and the amount of loss, if any, cannot be reasonably estimated. The timing of resolution of this case cannot be reasonably determined. Although the Company is vigorously defending this case, an unfavorable resolution of this matter may have a material adverse effect on the Company's business, financial condition, cash flows and results of operations.

Other Matters. In July 2012, Koppers Netherlands B.V.'s (Koppers Netherlands) coal tar distillation plant suffered a series of electrical disruptions which significantly affected plant operations and prevented the resumption of plant operations for a period of approximately three weeks. As a result of the suspension of operations, the coal tar distillation plant was unable to provide

steam and other services to an adjacent unaffiliated plant. This unaffiliated plant and Koppers Netherlands plant share certain services and plant infrastructure under a cost sharing agreement. In September 2012, Koppers Netherlands received a business interruption claim from the owner of the unaffiliated plant that included a claim for lost profits of approximately \$1.7 million. On July 11, 2013 the owner of the unaffiliated plant filed a request for arbitration with the Netherlands Arbitration Institute seeking damages for the business interruption claim plus interest, costs and legal fees. The arbitration hearing has tentatively been scheduled for January 2014. Koppers Netherlands has not received detailed information used by the unaffiliated plant to determine this alleged loss, and, as a result, Koppers Netherlands is unable to determine the validity of the actual loss incurred. The Company has not provided a reserve for the claimed lost profits because, at this time, it cannot reasonably determine the probability of such loss, and the amount of such loss, if any, cannot be reasonably estimated. The Company does not currently believe that resolution of this matter will involve a loss contingency that would be material to the financial statements.

Environmental and Other Litigation Matters

The Company and its subsidiaries are subject to federal, state, local and foreign laws and regulations and potential liabilities relating to the protection of the environment and human health and safety including, among other things, the cleanup of contaminated sites, the treatment, storage and disposal of wastes, the discharge of effluent into waterways, the emission of substances into the air and various health and safety matters. The Company's subsidiaries expect to incur substantial costs for ongoing compliance with such laws and regulations. The Company's subsidiaries may also face governmental or third-party claims, or otherwise incur costs, relating to cleanup of, or for injuries resulting from, contamination at sites associated with past and present operations. The Company accrues for environmental liabilities when a determination can be made that a liability is probable and reasonably estimable.

Environmental and Other Liabilities Retained or Assumed by Others. The Company's subsidiaries have agreements with former owners of certain of their operating locations under which the former owners retained, assumed and/or agreed to indemnify such subsidiaries against certain environmental and other liabilities. The most significant of these agreements was entered into at Koppers Inc.'s formation on December 29, 1988 (the "Acquisition"). Under the related asset purchase agreement between Koppers Inc. and Beazer East, subject to certain limitations, Beazer East retained the responsibility for and agreed to indemnify Koppers Inc. against certain liabilities, damages, losses and costs, including, with certain limited exceptions, liabilities under and costs to comply with environmental laws to the extent attributable to acts or omissions occurring prior to the Acquisition and liabilities related to products sold by Beazer East prior to the Acquisition (the "Indemnity"). Beazer Limited, the parent company of Beazer East, unconditionally guaranteed Beazer East's performance of the Indemnity pursuant to a guarantee (the "Guarantee"). In 1998, the parent company of Beazer East purchased an insurance policy under which the funding and risk of certain environmental and other liabilities relating to the former Koppers Company, Inc. operations of Beazer East (which includes locations purchased from Beazer East by Koppers Inc.) are underwritten by Centre Solutions (a member of the Zurich Group) and Swiss Re. Beazer East is a wholly-owned, indirect subsidiary of Heidelberg Cement AG.

The Indemnity provides different mechanisms, subject to certain limitations, by which Beazer East is obligated to indemnify Koppers Inc. with regard to certain environmental, product and other liabilities and imposes certain conditions on Koppers Inc. before receiving such indemnification, including, in some cases, certain limitations regarding the time period as to which claims for indemnification can be brought. In July 2004, Koppers Inc. and Beazer East agreed to amend the environmental indemnification provisions of the December 29, 1988 asset purchase agreement to extend the indemnification period for pre-closing environmental liabilities through July 2019. As consideration for the amendment, Koppers Inc. paid Beazer East a total of \$7.0 million and agreed to share toxic tort litigation defense costs arising from any sites acquired from Beazer East. The July 2004 amendment did not change the provisions of the Indemnity with respect to indemnification for non-environmental claims, such as product liability claims, which claims may continue to be asserted after July 2019.

Qualified expenditures under the Indemnity are not subject to a monetary limit. Qualified expenditures under the Indemnity include (i) environmental cleanup liabilities required by third parties, such as investigation, remediation and closure costs, relating to pre-December 29, 1988, or ("Pre-Closing"), acts or omissions of Beazer East or its predecessors; (ii) environmental claims by third parties for personal injuries, property damages and natural resources damages relating to Pre-Closing acts or omissions of Beazer East or its predecessors; (iii) punitive damages for the acts or omissions of Beazer East and its predecessors without regard to the date of the alleged conduct and (iv) product liability claims for products sold by Beazer East or its predecessors without regard to the date of the alleged conduct. If the third party claims described in sections (i) and (ii) above are not made by July 2019, Beazer East will not be required to pay the costs arising from such claims under the Indemnity.

However, with respect to any such claims which are made by July 2019, Beazer East will continue to be responsible for such claims under the Indemnity beyond July 2019. The Indemnity provides for the resolution of issues between Koppers Inc. and Beazer East by an arbitrator on an expedited basis upon the request of either party. The arbitrator could be asked, among other things, to make a determination regarding the allocation of environmental responsibilities between Koppers Inc. and Beazer East. Arbitration decisions under the Indemnity are final and binding on the parties.

Contamination has been identified at most manufacturing and other sites of the Company's subsidiaries. One site currently owned and operated by Koppers Inc. in the United States is listed on the National Priorities List promulgated under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (CERCLA). Currently, at the properties acquired from Beazer East (which include all of the National Priorities List sites and all but one of the sites permitted under the Resource Conservation and Recovery Act (RCRA)), a significant portion of all investigative, cleanup and closure activities are being conducted and paid for by Beazer East pursuant to the terms of the Indemnity. In addition, other of Koppers Inc.'s sites are or have been operated under RCRA and various other environmental permits, and remedial and closure activities are being conducted at some of these sites.

To date, the parties that retained, assumed and/or agreed to indemnify the Company against the liabilities referred to above, including Beazer East, have performed their obligations in all material respects. The Company believes that, for the last three years ended December 31, 2012, amounts paid by Beazer East as a result of its environmental remediation obligations under the Indemnity have averaged in total approximately \$16 million per year. Periodically, issues have arisen between Koppers Inc. and Beazer East and/or other indemnitors that have been resolved without arbitration. Koppers Inc. and Beazer East engage in discussions from time to time that involve, among other things, the allocation of environmental costs related to certain operating and closed facilities.

If for any reason (including disputed coverage or financial incapability) one or more of such parties fail to perform their obligations and the Company or its subsidiaries are held liable for or otherwise required to pay all or part of such liabilities without reimbursement, the imposition of such liabilities on the Company or its subsidiaries could have a material adverse effect on its business, financial condition, cash flows and results of operations. Furthermore, the Company could be required to record a contingent liability on its balance sheet with respect to such matters, which could result in a negative impact to the Company's business, financial condition, cash flows and results of operations.

Domestic Environmental Matters. Koppers Inc. has been named as one of the potentially responsible parties (PRPs) at the Portland Harbor CERCLA site located on the Willamette River in Oregon. Koppers Inc. currently operates a coal tar pitch terminal near the site. Koppers Inc. has responded to an Environmental Protection Agency (EPA) information request and has executed a PRP agreement which outlines the process to develop an allocation of past and future costs among more than 80 parties to the site. Koppers Inc. believes it is a *de minimus* contributor at the site. Additionally, a separate natural resources damages assessment (NRDA) is being conducted by a local trustee group. The NRDA is intended to identify further information necessary to estimate liabilities for remediation based settlements of national resource damages (NRD) claims. Koppers Inc. may also incur liabilities under the NRD process and has entered into a separate process to develop an allocation of NRD cost.

On March 30, 2012, a draft Feasibility Study (FS) was submitted to EPA by the Lower Willamette Group, a group of certain PRPs which has been conducting the investigation of the site. The draft FS identifies ten possible remedial alternatives which range in cost from approximately \$170 million to \$1.8 billion. The FS does not determine who is responsible for remediation costs or select remedies. The FS is under review by the EPA which will issue a final decision on the nature and extent of the final remediation. Responsibility for implementing and funding that work will be decided in the separate allocation process.

In September 2009, Koppers Inc. received a general notice letter notifying it that it may be a PRP at the Newark Bay CERCLA site. In January 2010, Koppers Inc. submitted a response to the general notice letter asserting that Koppers Inc. is a *de minimus* party at this site.

Other than the estimated costs of participating in the PRP group at the Portland Harbor and Newark Bay CERCLA sites totaling \$0.6 million at September 30, 2013, the Company has not provided a reserve for these matters because there has not been a determination of the total cost of the investigations, the remediation that will be required, the amount of natural resources damages or how those costs will be allocated among the PRPs. Accordingly, the Company believes that it cannot reasonably determine the probability of a loss, and the amount of loss, if any, cannot be reasonably estimated. An unfavorable resolution of these matters may have a material adverse effect on the Company's business, financial condition, cash flows and results of operations.

Australian Environmental Matters. Soil and groundwater contamination has been detected at certain of the Company's Australian facilities. At the Company's tar distillation facility in Newcastle, New South Wales, Australia, soil contamination from an abandoned underground coal tar pipeline and other groundwater contamination have been detected at a property adjacent to the facility. In 2011, the Company and the owner of the adjacent property reached an agreement in which the Company will contribute \$1.6 million and the owner of the adjacent property will contribute \$7.5 million toward remediation of the property. The agreement provides that the Company will assume responsibility for the management of the remediation effort and will indemnify the current owner for any remediation costs in excess of its agreed contribution. At the completion of the remediation, the agreement provides that the property will be transferred to the Company. The remediation project commenced in 2011 and the Company has reserved its expected remaining remediation costs of \$4.3 million and has recorded a receivable, net of cash collections, from the owner of the adjacent property of \$2.8 million as of September 30, 2013.

In December 2011, the Company ceased manufacturing operations at its Continental Carbon facility located in Kurnell, Australia. This decision was made as a result of deteriorating business conditions including raw material availability and cost, competition in the export markets due to the strength of the Australian dollar and a variety of other factors. The Company has accrued its expected cost of site remediation resulting from the closure of \$5.9 million as of September 30, 2013.

Environmental Reserves Rollforward. The following table reflects changes in the accrued liability for environmental matters, of which \$7.9 million and \$8.5 million are classified as current liabilities at September 30, 2013 and 2012, respectively:

	<i>September 30,</i>	<i>Period ended</i>
	<i>2013</i>	<i>December 31,</i>
		<i>2012</i>
<i>(Dollars in millions)</i>		
Balance at beginning of year	\$ 14.1	\$ 17.7
Expense	1.0	1.0
Reversal of reserves	(1.2)	(0.4)
Cash expenditures	(0.8)	(4.6)
Currency translation	(1.3)	0.4
Balance at end of year	\$ 11.8	\$ 14.1

The reversal of reserves includes a reversal of \$1.1 million due to the sale of a property to an unaffiliated third party in September 2013. The unaffiliated third party assumed the site's remediation liabilities.

17. Subsidiary Guarantor Information for Koppers Inc. Senior Notes

On December 1, 2009, Koppers Inc. issued \$300.0 million principal value of Senior Notes. Koppers Holdings and each of Koppers Inc.'s 100 percent-owned material domestic subsidiaries other than Koppers Assurance, Inc. fully and unconditionally guarantee the payment of principal and interest on the Senior Notes. The domestic guarantor subsidiaries include World-Wide Ventures Corporation, Koppers Delaware, Inc., Koppers Concrete Products, Inc., Concrete Partners, Inc., and Koppers Asia LLC.

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Separate condensed consolidating financial statement information for Koppers Holdings Inc. (the parent), Koppers Inc., the domestic guarantor subsidiaries and the non-guarantor subsidiaries as of September 30, 2013 and December 31, 2012 and for the three and nine months ended September 30, 2013 and 2012 is as follows. Certain amounts have been reclassified in the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 to reflect affiliated dividends and affiliated interest income.

Condensed Consolidating Statement of Comprehensive Income

For the Three Months Ended September 30, 2013

<i>(Dollars in millions)</i>	<i>Parent</i>	<i>Koppers Inc.</i>	<i>Domestic Guarantor Subsidiaries</i>	<i>Non-Guarantor Subsidiaries</i>	<i>Consolidating Adjustments</i>	<i>Consolidated</i>
Net sales	\$ 0.0	\$ 230.1	\$ 11.9	\$ 164.0	\$ (10.8)	\$ 395.2
Cost of sales including depreciation and amortization	0.0	197.5	7.2	144.0	(10.9)	337.8
Selling, general and administrative	0.5	10.8	0.1	6.9	0.0	18.3
Operating profit (loss)	(0.5)	21.8	4.6	13.1	0.1	39.1
Other income (expense)	19.4	0.4	1.1	0.8	(20.4)	1.3
Interest expense (income)	0.0	6.7	0.2	0.8	(1.0)	6.7
Income taxes	(0.2)	10.2	0.0	4.1	0.0	14.1
Income from continuing operations	19.1	5.3	5.5	9.0	(19.3)	19.6
Discontinued operations	0.0	0.0	0.0	(0.1)	0.0	(0.1)
Noncontrolling interests	0.0	0.0	0.0	0.4	0.0	0.4
Net income attributable to Koppers	\$ 19.1	\$ 5.3	\$ 5.5	\$ 8.5	\$ (19.3)	\$ 19.1
Comprehensive income attributable to Koppers	\$ 25.8	\$ 6.4	\$ 5.7	\$ 13.8	\$ (25.9)	\$ 25.8

Condensed Consolidating Statement of Comprehensive Income

For the Three Months Ended September 30, 2012

<i>(Dollars in millions)</i>	<i>Parent</i>	<i>Koppers Inc.</i>	<i>Domestic Guarantor Subsidiaries</i>	<i>Non-Guarantor Subsidiaries</i>	<i>Consolidating Adjustments</i>	<i>Consolidated</i>
Net sales	\$ 0.0	\$ 238.2	\$ 15.1	\$ 147.8	\$ (13.2)	\$ 387.9
Cost of sales including depreciation and amortization	0.0	211.0	9.3	129.7	(11.9)	338.1
Selling, general and administrative	0.4	11.6	0.4	6.6	0.0	19.0
Operating profit (loss)	(0.4)	15.6	5.4	11.5	(1.3)	30.8
Other income (expense)	16.3	0.4	0.3	(0.1)	(16.3)	0.6
Interest expense (income)	0.1	6.9	0.0	1.2	(1.3)	6.9
Income taxes	(0.2)	7.0	0.1	1.4	0.0	8.3
Income from continuing operations	16.0	2.1	5.6	8.8	(16.3)	16.2
Discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Noncontrolling interests	0.0	0.0	0.0	0.2	0.0	0.2
Net income attributable to Koppers	\$ 16.0	\$ 2.1	\$ 5.6	\$ 8.6	\$ (16.3)	\$ 16.0

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Comprehensive income attributable to Koppers	\$ 25.0	\$	3.3	\$	8.1	\$	13.9	\$	(25.3)	\$	25.0
--	---------	----	-----	----	-----	----	------	----	--------	----	------

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Statement of Comprehensive Income

For the Nine Months Ended September 30, 2013

	<i>Parent</i>	<i>Koppers Inc.</i>	<i>Domestic Guarantor Subsidiaries</i>	<i>Non-Guarantor Subsidiaries</i>	<i>Consolidating Adjustments</i>	<i>Consolidated</i>
<i>(Dollars in millions)</i>						
Net sales	\$ 0.0	\$ 660.3	\$ 48.5	\$ 470.0	\$ (42.3)	\$ 1,136.5
Cost of sales including depreciation and amortization	0.0	580.6	34.3	419.3	(42.4)	991.8
Selling, general and administrative	1.5	29.7	0.7	20.3	0.0	52.2
Operating profit (loss)	(1.5)	50.0	13.5	30.4	0.1	92.5
Other income (expense)	45.4	1.3	6.3	1.5	(51.7)	2.8
Interest expense (income)	0.0	20.2	0.1	3.1	(3.2)	20.2
Income taxes	(0.6)	21.3	0.2	8.4	0.0	29.3
Income from continuing operations	44.5	9.8	19.5	20.4	(48.4)	45.8
Discontinued operations	0.0	0.0	0.0	(0.1)	0.0	(0.1)
Noncontrolling interests	0.0	0.0	0.0	1.2	0.0	1.2
Net income attributable to Koppers	\$ 44.5	\$ 9.8	\$ 19.5	\$ 19.1	\$ (48.4)	\$ 44.5
Comprehensive income attributable to Koppers	\$ 40.8	\$ 13.0	\$ 12.9	\$ 18.7	\$ (44.6)	\$ 40.8

Condensed Consolidating Statement of Comprehensive Income

For the Nine Months Ended September 30, 2012

	<i>Parent</i>	<i>Koppers Inc.</i>	<i>Domestic Guarantor Subsidiaries</i>	<i>Non-Guarantor Subsidiaries</i>	<i>Consolidating Adjustments</i>	<i>Consolidated</i>
<i>(Dollars in millions)</i>						
Net sales	\$ 0.0	\$ 689.1	\$ 73.0	\$ 466.7	\$ (48.7)	\$ 1,180.1
Cost of sales including depreciation and amortization	0.0	601.9	49.2	412.9	(39.7)	1,024.3
Selling, general and administrative	1.3	33.0	1.6	19.2	0.0	55.1
Operating profit (loss)	(1.3)	54.2	22.2	34.6	(9.0)	100.7
Other income (expense)	52.9	0.4	0.8	0.5	(52.9)	1.7
Interest expense (income)	0.1	20.7	0.0	3.9	(3.9)	20.8
Income taxes	(0.5)	20.5	0.3	8.2	0.0	28.5
Income from continuing operations	52.0	13.4	22.7	23.0	(58.0)	53.1
Discontinued operations	0.0	0.0	0.0	(0.1)	0.0	(0.1)
Noncontrolling interests	0.0	0.0	0.0	1.0	0.0	1.0
Net income attributable to Koppers	\$ 52.0	\$ 13.4	\$ 22.7	\$ 21.9	\$ (58.0)	\$ 52.0
Comprehensive income attributable to Koppers	\$ 59.8	\$ 16.9	\$ 24.9	\$ 24.0	\$ (65.8)	\$ 59.8

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Balance Sheet

September 30, 2013

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>						
ASSETS						
Cash and cash equivalents	\$ 0.0	\$ 8.0	\$ 0.0	\$ 64.4	\$ 0.0	\$ 72.4
Restricted cash	0.0	0.0	1.5	0.0	0.0	1.5
Accounts receivable, net	6.7	100.1	339.8	92.9	(357.4)	182.1
Inventories, net	0.0	79.5	0.0	87.1	(0.2)	166.4
Deferred tax assets	0.0	16.2	(1.5)	0.0	0.0	14.7
Other current assets	0.0	6.5	1.8	26.8	0.0	35.1
Total current assets	6.7	210.3	341.6	271.2	(357.6)	472.2
Equity investments	161.3	80.8	27.3	4.2	(267.4)	6.2
Property, plant and equipment, net	0.0	105.1	0.0	64.3	0.0	169.4
Goodwill	0.0	39.8	0.0	33.6	0.0	73.4
Deferred tax assets	0.0	20.1	(12.4)	4.9	0.0	12.6
Other noncurrent assets	0.1	15.6	120.2	51.4	(160.0)	27.3
Total assets	\$ 168.1	\$ 471.7	\$ 476.7	\$ 429.6	\$ (785.0)	\$ 761.1
LIABILITIES AND EQUITY						
Accounts payable	\$ 0.1	\$ 384.3	\$ 14.7	\$ 53.2	\$ (357.4)	\$ 94.9
Accrued liabilities	4.6	17.1	10.5	39.9	0.0	72.1
Total current liabilities	4.7	401.4	25.2	93.1	(357.4)	167.0
Long-term debt	0.0	398.5	0.0	57.9	(160.0)	296.4
Other long-term liabilities	0.0	81.1	2.4	29.5	0.0	113.0
Total liabilities	4.7	881.0	27.6	180.5	(517.4)	576.4
Koppers shareholders' equity	163.4	(409.3)	449.1	227.8	(267.6)	163.4
Noncontrolling interests	0.0	0.0	0.0	21.3	0.0	21.3
Total liabilities and equity	\$ 168.1	\$ 471.7	\$ 476.7	\$ 429.6	\$ (785.0)	\$ 761.1

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Balance Sheet

December 31, 2012

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>						
ASSETS						
Cash and cash equivalents	\$ 0.0	\$ 4.8	\$ 0.0	\$ 61.9	\$ 0.0	\$ 66.7
Receivables, net	6.9	89.9	324.9	86.8	(345.8)	162.7
Inventories, net	0.0	102.2	0.0	93.9	(0.3)	195.8
Deferred tax assets	0.0	16.4	(1.5)	0.2	0.0	15.1
Other current assets	0.0	8.0	2.8	30.1	0.0	40.9
Total current assets	6.9	221.3	326.2	272.9	(346.1)	481.2
Equity investments	148.7	77.1	27.3	3.8	(251.1)	5.8
Property, plant and equipment, net	0.0	105.7	0.0	55.4	0.0	161.1
Goodwill	0.0	39.8	0.0	35.8	0.0	75.6
Deferred tax assets	0.0	33.5	(12.4)	6.1	0.0	27.2
Other noncurrent assets	0.0	15.8	126.7	52.5	(165.9)	29.1
Total assets	\$ 155.6	\$ 493.2	\$ 467.8	\$ 426.5	\$ (763.1)	\$ 780.0
LIABILITIES AND EQUITY						
Accounts payable	\$ 0.1	\$ 371.7	\$ 17.0	\$ 60.6	\$ (345.9)	\$ 103.5
Accrued liabilities	4.9	15.9	12.2	44.7	0.0	77.7
Total current liabilities	5.0	387.6	29.2	105.3	(345.9)	181.2
Long-term debt	0.0	397.6	0.0	64.4	(165.9)	296.1
Other long-term liabilities	0.0	101.2	2.4	31.0	0.0	134.6
Total liabilities	5.0	886.4	31.6	200.7	(511.8)	611.9
Koppers shareholders' equity	150.6	(393.2)	436.2	208.3	(251.3)	150.6
Noncontrolling interests	0.0	0.0	0.0	17.5	0.0	17.5
Total liabilities and equity	\$ 155.6	\$ 493.2	\$ 467.8	\$ 426.5	\$ (763.1)	\$ 780.0

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Statement of Cash Flows

For the Nine Months Ended September 30, 2013

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>						
Cash provided by (used in) operating activities	\$ 32.6	\$ 39.7	\$ 0.0	\$ 16.8	\$ (23.5)	\$ 65.6
Cash provided by (used in) investing activities:						
Capital expenditures and acquisitions	0.0	(13.3)	0.0	(16.1)	0.0	(29.4)
Net cash proceeds (payments) from divestitures and asset sales	0.0	1.4	0.0	1.0	0.0	2.4
Net cash provided by (used in) investing activities	0.0	(11.9)	0.0	(15.1)	0.0	(27.0)
Cash provided by (used in) financing activities:						
Deferred financing costs	0.0	(1.2)	0.0	0.0	0.0	(1.2)
Dividends paid	(15.3)	(23.5)	0.0	0.0	23.5	(15.3)
Other financing activities	0.0	0.0	0.0	2.3	0.0	2.3
Stock issued (repurchased)	(17.3)	0.0	0.0	0.0	0.0	(17.3)
Net cash provided by (used in) financing activities	(32.6)	(24.7)	0.0	2.3	23.5	(31.5)
Effect of exchange rates on cash	0.0	0.1	0.0	(1.5)	0.0	(1.4)
Net increase (decrease) in cash and cash equivalents	0.0	3.2	0.0	2.5	0.0	5.7
Cash and cash equivalents at beginning of year	0.0	4.8	0.0	61.9	0.0	66.7
Cash and cash equivalents at end of period	\$ 0.0	\$ 8.0	\$ 0.0	\$ 64.4	\$ 0.0	\$ 72.4

Condensed Consolidating Statement of Cash Flows

For the Nine Months Ended September 30, 2012

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>						
Cash provided by (used in) operating activities	\$ 21.8	\$ 32.0	\$ 0.0	\$ 15.5	\$ (14.8)	\$ 54.5
Cash provided by (used in) investing activities:						
Capital expenditures and acquisitions	0.0	(12.2)	0.0	(3.6)	0.0	(15.8)
Net cash proceeds (payments) from divestitures and asset sales	0.0	0.3	0.0	0.4	0.0	0.7
Net cash provided by (used in) investing activities	0.0	(11.9)	0.0	(3.2)	0.0	(15.1)
Cash provided by (used in) financing activities:						
Borrowings (repayments) of long-term debt	0.1	(5.0)	0.0	(0.1)	0.0	(5.0)
Deferred financing costs	0.0	(0.1)	0.0	0.0	0.0	(0.1)
Stock issued (repurchased)	(7.4)	0.0	0.0	0.0	0.0	(7.4)
Dividends paid	(14.5)	(14.8)	0.0	0.0	14.8	(14.5)
Net cash provided by (used in) financing activities	(21.8)	(19.9)	0.0	(0.1)	14.8	(27.0)
Effect of exchange rates on cash	0.0	(0.1)	0.0	2.5	0.0	2.4
Net increase (decrease) in cash and cash equivalents	0.0	0.1	0.0	14.7	0.0	14.8
Cash and cash equivalents at beginning of year	0.0	0.0	0.0	54.1	0.0	54.1

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Cash and cash equivalents at end of period	\$	0.0	\$	0.1	\$	0.0	\$	68.8	\$	0.0	\$	68.9
--	----	-----	----	-----	----	-----	----	------	----	-----	----	------

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

18. Subsidiary Guarantor Information for Shelf Registration

Under a registration statement on Form S-3, Koppers Holdings may sell a combination of securities, including common stock, debt securities, preferred stock, depository shares, warrants and units, from time to time in one or more offerings. In addition, Koppers Inc. may sell debt securities from time to time under the registration statement. Debt securities may be fully and unconditionally guaranteed, on a joint and several basis, by Koppers Holdings, Koppers Inc. and/or other guarantor subsidiaries which will correspond to certain subsidiaries in the United States, Europe and Australia which are 100 percent owned by either Koppers Holdings or Koppers Inc. The non-guarantor subsidiaries consist of certain subsidiaries in the United States, China, India and Mauritius. The guarantor subsidiaries that issue guarantees, if any, will be determined when a debt offering actually occurs under the registration statement and accordingly, the condensed consolidated financial information for subsidiary guarantors will be revised to identify the subsidiaries that actually provided guarantees.

Separate condensed consolidating financial statement information for the parent, Koppers Inc., domestic guarantor subsidiaries, foreign guarantor subsidiaries and non-guarantor subsidiaries as of September 30, 2013 and December 31, 2012 and for the three and nine months ended September 30, 2013 and 2012 is as follows. Certain amounts have been reclassified in the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 to reflect affiliated dividends and affiliated interest income.

Condensed Consolidating Statement of Comprehensive Income

For the Three Months Ended September 30, 2013

<i>(Dollars in millions)</i>	<i>Parent</i>	<i>Koppers Inc.</i>	<i>Domestic Guarantor Subsidiaries</i>	<i>Foreign Guarantor Subsidiaries</i>	<i>Non-Guarantor Subsidiaries</i>	<i>Consolidating Adjustments</i>	<i>Consolidated</i>
Net sales	\$ 0.0	\$ 230.1	\$ 11.9	\$ 120.7	\$ 43.4	\$ (10.9)	\$ 395.2
Cost of sales including depreciation and amortization	0.0	197.5	7.2	103.6	40.5	(11.0)	337.8
Selling, general and administrative	0.5	10.8	0.1	5.5	1.4	0.0	18.3
Operating profit (loss)	(0.5)	21.8	4.6	11.6	1.5	0.1	39.1
Other income (expense)	19.4	0.4	1.1	0.7	0.1	(20.4)	1.3
Interest expense (income)	0.0	6.7	0.2	0.6	0.2	(1.0)	6.7
Income taxes	(0.2)	10.2	0.0	3.8	0.3	0.0	14.1
Income from continuing operations	19.1	5.3	5.5	7.9	1.1	(19.3)	19.6
Discontinued operations	0.0	0.0	0.0	(0.1)	0.0	0.0	(0.1)
Noncontrolling interests	0.0	0.0	0.0	0.0	0.4	0.0	0.4
Net income attributable to Koppers	\$ 19.1	\$ 5.3	\$ 5.5	\$ 7.8	\$ 0.7	\$ (19.3)	\$ 19.1
Comprehensive income attributable to Koppers	\$ 25.8	\$ 6.4	\$ 5.7	\$ 13.2	\$ 1.3	\$ (26.6)	\$ 25.8

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Statement of Comprehensive Income

For the Three Months Ended September 30, 2012

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Foreign Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>							
Net sales	\$ 0.0	\$ 238.2	\$ 15.1	\$ 118.6	\$ 29.2	\$ (13.2)	\$ 387.9
Cost of sales including depreciation and amortization		211.0	9.3	102.3	27.4	(11.9)	338.1
Selling, general and administrative	0.4	11.6	0.4	5.6	1.0	0.0	19.0
Operating profit (loss)	(0.4)	15.6	5.4	10.7	0.8	(1.3)	30.8
Other income (expense)	16.3	0.4	0.3	0.1	(0.2)	(16.3)	0.6
Interest expense (income)	0.1	6.9	0.0	1.0	0.2	(1.3)	6.9
Income taxes	(0.2)	7.0	0.1	1.4	0.0	0.0	8.3
Income from continuing operations	16.0	2.1	5.6	8.4	0.4	(16.3)	16.2
Discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Noncontrolling interests	0.0	0.0	0.0	0.0	0.2	0.0	0.2
Net income attributable to Koppers	\$ 16.0	\$ 2.1	\$ 5.6	\$ 8.4	\$ 0.2	\$ (16.3)	\$ 16.0
Comprehensive income attributable to Koppers	\$ 25.0	\$ 3.3	\$ 8.1	\$ 14.3	\$ 0.4	\$ (26.1)	\$ 25.0

Condensed Consolidating Statement of Comprehensive Income

For the Nine Months Ended September 30, 2013

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Foreign Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>							
Net sales	\$ 0.0	\$ 660.3	\$ 48.5	\$ 348.6	\$ 123.9	\$ (44.8)	\$ 1,136.5
Cost of sales including depreciation and amortization	0.0	580.6	34.3	305.7	116.1	(44.9)	991.8
Selling, general and administrative	1.5	29.7	0.7	16.8	3.5	0.0	52.2
Operating profit (loss)	(1.5)	50.0	13.5	26.1	4.3	0.1	92.5
Other income (expense)	45.4	1.3	6.3	0.8	0.7	(51.7)	2.8
Interest expense (income)	0.0	20.2	0.1	2.5	0.6	(3.2)	20.2
Income taxes	(0.6)	21.3	0.2	7.4	1.0	0.0	29.3
Income from continuing operations	44.5	9.8	19.5	17.0	3.4	(48.4)	45.8
Discontinued operations	0.0	0.0	0.0	(0.1)	0.0	0.0	(0.1)
Noncontrolling interests	0.0	0.0	0.0	0.0	1.2	0.0	1.2
Net income attributable to Koppers	\$ 44.5	\$ 9.8	\$ 19.5	\$ 16.9	\$ 2.2	\$ (48.4)	\$ 44.5
Comprehensive income attributable to Koppers	\$ 40.8	\$ 13.0	\$ 12.9	\$ 14.4	\$ 2.8	\$ (43.1)	\$ 40.8

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Statement of Comprehensive Income

For the Nine Months Ended September 30, 2012

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Foreign Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>							
Net sales	\$ 0.0	\$ 689.1	\$ 73.0	\$ 355.4	\$ 111.3	\$ (48.7)	\$ 1,180.1
Cost of sales including depreciation and amortization	0.0	601.9	49.2	309.6	103.3	(39.7)	1,024.3
Selling, general and administrative	1.3	33.0	1.6	16.7	2.5	0.0	55.1
Operating profit (loss)	(1.3)	54.2	22.2	29.1	5.5	(9.0)	100.7
Other income (expense)	52.9	0.4	0.8	0.1	0.4	(52.9)	1.7
Interest expense (income)	0.1	20.7	0.0	3.0	0.9	(3.9)	20.8
Income taxes	(0.5)	20.5	0.3	7.5	0.7	0.0	28.5
Income from continuing operations	52.0	13.4	22.7	18.7	4.3	(58.0)	53.1
Discontinued operations	0.0	0.0	0.0	(0.1)	0.0	0.0	(0.1)
Noncontrolling interests	0.0	0.0	0.0	0.0	1.0	0.0	1.0
Net income attributable to Koppers	\$ 52.0	\$ 13.4	\$ 22.7	\$ 18.6	\$ 3.3	\$ (58.0)	\$ 52.0
Comprehensive income attributable to Koppers	\$ 59.8	\$ 16.9	\$ 24.9	\$ 21.4	\$ 3.3	\$ (66.5)	\$ 59.8

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Balance Sheet

September 30, 2013

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Foreign Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>							
ASSETS							
Cash and cash equivalents	\$ 0.0	\$ 8.0	\$ 0.0	\$ 48.3	\$ 16.1	\$ 0.0	\$ 72.4
Restricted cash	0.0	0.0	1.5	0.0	0.0	0.0	1.5
Accounts receivable, net	6.7	100.1	339.8	58.7	34.2	(357.4)	182.1
Inventories, net	0.0	79.5	0.0	79.9	7.2	(0.2)	166.4
Deferred tax assets	0.0	16.2	(1.5)	0.0	0.0	0.0	14.7
Other current assets	0.0	6.5	1.8	10.6	16.2	0.0	35.1
Total current assets	6.7	210.3	341.6	197.5	73.7	(357.6)	472.2
Equity investments	161.3	80.8	27.3	36.4	4.2	(303.8)	6.2
Property, plant and equipment, net	0.0	105.1	0.0	41.0	23.3	0.0	169.4
Goodwill	0.0	39.8	0.0	32.3	1.3	0.0	73.4
Deferred tax assets	0.0	20.1	(12.4)	6.5	(1.6)	0.0	12.6
Other noncurrent assets	0.1	15.6	120.2	10.4	41.1	(160.1)	27.3
Total assets	\$ 168.1	\$ 471.7	\$ 476.7	\$ 324.1	\$ 142.0	\$ (821.5)	\$ 761.1
LIABILITIES AND EQUITY							
Accounts payable	\$ 0.1	\$ 384.3	\$ 14.7	\$ 32.9	\$ 20.3	\$ (357.4)	\$ 94.9
Accrued liabilities	4.6	17.1	10.5	30.3	9.6	0.0	72.1
Total current liabilities	4.7	401.4	25.2	63.2	29.9	(357.4)	167.0
Long-term debt	0.0	398.5	0.0	57.9	0.0	(160.0)	296.4
Other long-term liabilities	0.0	81.1	2.4	22.7	6.8	0.0	113.0
Total liabilities	4.7	881.0	27.6	143.8	36.7	(517.4)	576.4
Koppers shareholders' equity	163.4	(409.3)	449.1	180.3	84.0	(304.1)	163.4
Noncontrolling interests	0.0	0.0	0.0	0.0	21.3	0.0	21.3
Total liabilities and equity	\$ 168.1	\$ 471.7	\$ 476.7	\$ 324.1	\$ 142.0	\$ (821.5)	\$ 761.1

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Balance Sheet

December 31, 2012

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Foreign Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>							
ASSETS							
Cash and cash equivalents	\$ 0.0	\$ 4.8	\$ 0.0	\$ 40.7	\$ 21.2	\$ 0.0	\$ 66.7
Receivables, net	6.9	89.9	324.9	65.9	21.2	(346.1)	162.7
Inventories, net	0.0	102.2	0.0	86.7	7.2	(0.3)	195.8
Deferred tax assets	0.0	16.4	(1.5)	0.0	0.2	0.0	15.1
Other current assets	0.0	8.0	2.8	17.6	12.5	0.0	40.9
Total current assets	6.9	221.3	326.2	210.9	62.3	(346.4)	481.2
Equity investments	148.7	77.1	27.3	30.2	3.8	(281.3)	5.8
Property, plant and equipment, net	0.0	105.7	0.0	40.7	14.7	0.0	161.1
Goodwill	0.0	39.8	0.0	34.4	1.4	0.0	75.6
Deferred tax assets	0.0	33.5	(12.4)	7.6	(1.5)	0.0	27.2
Other noncurrent assets	0.0	15.8	126.7	12.1	40.3	(165.8)	29.1
Total assets	\$ 155.6	\$ 493.2	\$ 467.8	\$ 335.9	\$ 121.0	\$ (793.5)	\$ 780.0
LIABILITIES AND EQUITY							
Accounts payable	\$ 0.1	\$ 371.7	\$ 17.0	\$ 42.2	\$ 18.6	\$ (346.1)	\$ 103.5
Accrued liabilities	4.9	15.9	12.2	35.7	9.0	0.0	77.7
Total current liabilities	5.0	387.6	29.2	77.9	27.6	(346.1)	181.2
Long-term debt	0.0	397.6	0.0	64.4	0.0	(165.9)	296.1
Other long-term liabilities	0.0	101.2	2.4	24.5	6.5	0.0	134.6
Total liabilities	5.0	886.4	31.6	166.8	34.1	(512.0)	611.9
Koppers shareholders' equity	150.6	(393.2)	436.2	169.1	69.4	(281.5)	150.6
Noncontrolling interests	0.0	0.0	0.0	0.0	17.5	0.0	17.5
Total liabilities and equity	\$ 155.6	\$ 493.2	\$ 467.8	\$ 335.9	\$ 121.0	\$ (793.5)	\$ 780.0

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Statement of Cash Flows

For the Nine Months Ended September 30, 2013

	Parent	Koppers Inc.	Domestic Guarantor Subsidiaries	Foreign Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<i>(Dollars in millions)</i>							
Cash provided by (used in) operating activities	\$ 32.6	\$ 39.7	\$ 0.0	\$ 14.9	\$ 1.9	\$ (23.5)	\$ 65.6
Cash provided by (used in) investing activities:							
Capital expenditures and acquisitions	0.0	(13.3)	0.0	(6.6)	(9.5)	0.0	(29.4)
Net cash proceeds (payments) from divestitures and asset sales	0.0	1.4	0.0	1.1	(0.1)	0.0	2.4
Net cash provided by (used in) investing activities	0.0	(11.9)	0.0	(5.5)	(9.6)	0.0	(27.0)
Cash provided by (used in) financing activities:							
Deferred financing costs	0.0	(1.2)	0.0	0.0	0.0	0.0	(1.2)
Dividends paid	(15.3)	(23.5)	0.0	0.0	0.0	23.5	(15.3)
Other financing activities	0.0	0.0	0.0	0.0	2.3	0.0	2.3
Stock issued (repurchased)	(17.3)	0.0	0.0	0.0	0.0	0.0	(17.3)
Net cash provided by (used in) financing activities	(32.6)	(24.7)	0.0	0.0	2.3	23.5	(31.5)
Effect of exchange rates on cash	0.0	0.1	0.0	(1.8)	0.3	0.0	(1.4)
Net increase (decrease) in cash and cash equivalents	0.0	3.2	0.0	7.6	(5.1)	0.0	5.7
Cash and cash equivalents at beginning of year	0.0	4.8	0.0	40.7	21.2	0.0	66.7
Cash and cash equivalents at end of period	\$ 0.0	\$ 8.0	\$ 0.0	\$ 48.3	\$ 16.1	\$ 0.0	\$ 72.4

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

Condensed Consolidating Statement of Cash Flows

For the Nine Months Ended September 30, 2012

	<i>Parent</i>	<i>Koppers Inc.</i>	<i>Domestic Guarantor Subsidiaries</i>	<i>Foreign Guarantor Subsidiaries</i>	<i>Non-Guarantor Subsidiaries</i>	<i>Consolidating Adjustments</i>	<i>Consolidated</i>
<i>(Dollars in millions)</i>							
Cash provided by (used in) operating activities	\$ 21.8	\$ 32.0	\$ 0.0	\$ 21.5	\$ (6.0)	\$ (14.8)	\$ 54.5
Cash provided by (used in) investing activities:							
Capital expenditures and acquisitions	0.0	(12.2)	0.0	(3.2)	(0.4)	0.0	(15.8)
Net cash proceeds (payments) from divestitures and asset sales	0.0	0.3	0.0	0.3	0.1	0.0	0.7
Net cash provided by (used in) investing activities	0.0	(11.9)	0.0	(2.9)	(0.3)	0.0	(15.1)
Cash provided by (used in) financing activities:							
Borrowings (repayments) of long-term debt	0.1	(5.0)	0.0	0.0	(0.1)	0.0	(5.0)
Deferred financing costs	0.0	(0.1)	0.0	0.0	0.0	0.0	(0.1)
Stock issued (repurchased)	(7.4)	0.0	0.0	0.0	0.0	0.0	(7.4)
Dividends paid	(14.5)	(14.8)	0.0	0.0	0.0	14.8	(14.5)
Net cash provided by (used in) financing activities	(21.8)	(19.9)	0.0	0.0	(0.1)	14.8	(27.0)
Effect of exchange rates on cash	0.0	(0.1)	0.0	2.5	0.0	0.0	2.4
Net increase (decrease) in cash and cash equivalents	0.0	0.1	0.0	21.1	(6.4)	0.0	14.8
Cash and cash equivalents at beginning of year	0.0	0.0	0.0	45.1	9.0	0.0	54.1
Cash and cash equivalents at end of period	\$ 0.0	\$ 0.1	\$ 0.0	\$ 66.2	\$ 2.6	\$ 0.0	\$ 68.9

19. Related Party Transactions

In November 2011, the Company loaned \$11.7 million to TKK, a 30-percent owned company in China. During 2012, TKK made repayments totaling \$2.2 million; accordingly the amount of the loan is \$9.5 million as of September 30, 2013. The loan is repayable in November 2013 and is expected to be extended for an additional one-year term.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report and any documents incorporated herein by reference contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and may include, but are not limited to, statements about sales levels, restructuring, profitability and anticipated expenses and cash outflows. All forward-looking statements involve risks and uncertainties. All statements contained herein that are not clearly historical in nature are forward-looking, and words such as believe, anticipate, expect, estimate, may, will, should, continue, plans, intends, likely, or other similar words or phrases are generally intended to identify forward-looking statements. Any forward-looking statement contained herein, in press releases, written statements or other documents filed with the Securities and Exchange Commission, or in Koppers communications and discussions with investors and analysts in the normal course of business through meetings, phone calls and conference calls, regarding expectations with respect to sales, earnings, cash flows, operating efficiencies, product introduction or expansion, the benefits of acquisitions and divestitures or other matters as well as financings and repurchases of debt or equity securities, are subject to known and unknown risks, uncertainties and contingencies. Many of these risks, uncertainties and contingencies are beyond our control, and may cause actual results, performance or achievements to differ materially from anticipated results, performance or achievements. Factors that might affect such forward-looking statements, include, among other things, general economic and business conditions, demand for Koppers goods and services, competitive conditions, interest rate and foreign currency rate fluctuations, availability of key raw materials and unfavorable resolution of claims against us, as well as those discussed more fully elsewhere in this report and in other documents filed with the Securities and Exchange Commission by Koppers, particularly our latest annual report on Form 10-K. We caution you that the foregoing list of important factors may not contain all of the material factors that are important to you. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this report and the documents incorporated by reference herein may not in fact occur. Any forward-looking statements in this report speak only as of the date of this report, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after that date or to reflect the occurrence of unanticipated events.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited financial statements and related notes included in Item 1 of this Part I as well as the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2012.

Overview

We are a leading integrated global provider of chemicals, carbon compounds and treated wood products and services. Our products are used in a variety of niche applications in a diverse range of end-markets, including the aluminum, railroad, specialty chemical, utility, rubber, concrete, and steel industries. We serve our customers through a comprehensive global manufacturing and distribution network, with manufacturing facilities located in the United States, Australia, China, the United Kingdom, Denmark and the Netherlands.

We operate two principal businesses: **Carbon Materials and Chemicals (CMC)** and **Railroad and Utility Products and Services (RUPS)**.

Through our CMC business, we process coal tar into a variety of products, including carbon pitch, creosote, carbon black feedstock, naphthalene and phthalic anhydride, which are intermediate materials necessary in the production of aluminum, the pressure treatment of wood and the production of carbon black, the production of high-strength concrete, and the production of plasticizers and specialty chemicals, respectively. Through our RUPS business, we believe that we are the largest supplier of railroad cross-ties to the North American railroads. Our other treated wood products include utility poles for the electric and telephone utility industries in North America and Australia. We also provide rail joint bar products as well as various services to the railroad industry.

In October 2012 we entered into an agreement with Nippon Steel and Sumikin Chemical and several other entities to develop and construct a fully integrated coal tar based carbon products complex in Pizhou City, Jiangsu Province, China. The complex will include a 300,000 metric ton tar distillation facility that will be majority-owned by Koppers, as well as a carbon black plant and a needle coke plant that will be owned by Nippon Steel and Sumikin Chemical (Nippon). A significant portion of the products produced at the tar distillation plant will be sold under a long-term contract with Nippon to supply their carbon black and needle coke plants. The project has commenced and construction of the tar distillation plant is expected to be completed in mid-2014.

We anticipate that the completion of the needle coke and carbon black facilities will occur in the fourth quarter of 2014 and that we will be selling all of our production into the domestic Chinese market until all the facilities in the complex are completed.

In October 2013, we were informed by the Tangshan Government of its intention to close the coke batteries owned and operated by our joint venture partner, TISCO, in Tangshan, China. The Tangshan Government has ordered the closure of these coke batteries by March 15, 2014 in an effort to improve the air quality in the Tangshan area. The Company's 60-percent owned subsidiary, KCCC, is located within TISCO's property and relies on its operations for a significant portion of raw material supply, utilities and other shared services. At the same time, the Tangshan Government requested that KCCC relocate its operations and offered assistance to KCCC in this regard, although no specific details have been provided to us as to the extent and nature of such assistance. Closure of the TISCO coke batteries could impact KCCC's ability to operate its coal tar distillation plant on a long-term basis. We have entered into discussions with our non-controlling partner in KCCC, TISCO, and the Tangshan Government to evaluate our options, which include remaining at the current location and continuing to operate or remaining at our current location on a temporary basis and transitioning to another location.

The closure or relocation of KCCC's coal tar distillation facility would have a material adverse effect on our business, financial condition, cash flow and results of operations. For the most recent year ended December 31, 2012, KCCC contributed operating profit of approximately \$3.5 million after deducting profit attributable to non-controlling interests. As of September 30, 2013, the net book value of fixed assets was approximately \$15 million. We believe we would be able to continue to supply all our export commitments with carbon pitch through our other 30-percent owned Chinese company and other commercial relationships in China. However, our margin on export sales would be negatively affected due to our lower ownership interest in these companies.

Outlook

Trend Overview

Our businesses and results of operations are impacted by various competitive and other factors including (i) the impact of global economic conditions on demand for our products, including the impact of imported products from competitors in certain regions where we operate; (ii) raw materials pricing and availability, in particular the amount and quality of coal tar available in global markets, which is negatively affected by reductions in steel production; (iii) volatility in oil prices, which impacts the cost of coal tar and certain other raw materials, as well as selling prices and margins for certain of our products including carbon black feedstock and phthalic anhydride; (iv) competitive conditions in global carbon pitch markets; and (v) changes in foreign exchange rates.

The availability of coal tar is linked to levels of metallurgical coke production. As the global steel industry has reduced production of steel and metallurgical coke the volumes of coal tar by-product were also reduced. Our ability to obtain coal tar and the price we are able to negotiate has a significant impact on the level of profitability of our business. Many of our sales contracts include provisions that allow for price increases based on increases in the price of raw materials, which has allowed us to generally maintain profit dollars in our core businesses. However, significant increases in raw material costs can result in margin dilution if only the increased cost of the raw material is passed on to the customer. Additionally, in certain regions such as China that have competing markets for coal tar, or in regions where the available supply of our products exceeds demand, we may not be able to recover raw material cost increases in the selling prices for our end products.

The primary product produced by CMC is carbon pitch, which is sold primarily to the aluminum industry to be used in the production of carbon anodes. The smelting of aluminum requires significant amounts of energy, which is a major cost component for the aluminum industry. As a result, new production facilities are being built in regions with low energy costs such as the Middle East, while regions with higher energy costs such as the United States, Australia and Western Europe have seen significant amounts of smelting capacity idled or closed over the last several years.

In 2012 reductions in aluminum pricing resulted in additional closures and curtailments in Europe and Australia that have resulted in lower sales volumes of carbon pitch for us in those regions. While we expect to recover some of these lower volumes from operations in China, margins may be negatively affected as our increased presence in Asia has had a dilutive effect on margins due to market conditions in that region as well as the joint venture ownership structures of our Chinese operations.

Our businesses and results of operations have been negatively affected in 2012 and 2013 by difficult economic conditions in Europe. Certain key end markets experienced significant reductions in demand that have negatively affected the profitability for most of our products produced and sold in Europe, and we expect this to continue at least through 2013. Additionally, during

2013 our profitability in North America has been negatively impacted by increased levels of imports from competitors in Europe due to weak end-market demand there.

As a result of low production levels, we are curtailing operations at our tar distillation facility located in Follansbee, West Virginia in order to reduce our cost structure and improve profitability. The curtailment is expected to result in cost savings of approximately \$4 million annually and will result in an estimated charge to earnings of approximately \$1.2 million in the fourth quarter of 2013.

We anticipate that there may be additional curtailments or closures at other of our facilities as part of our efforts to reduce our cost structure and improve capacity utilization in our businesses.

Several of our products, particularly carbon black feedstock and phthalic anhydride, have end market pricing that is linked to oil. Historically, when oil prices increase we have benefited in terms of revenues and profitability from the higher pricing for these products as the cost of coal tar has not increased proportionally with oil. However, over the past few years, our coal tar costs have demonstrated a stronger correlation to the price of oil, which has resulted in higher raw material and finished product costs as the price of oil has increased.

The primary end-market for RUPS is the North American railroad industry, which has a large installed base of wood crossties that require periodic replacement. As a result, our volumes for crossties and our operating results for this business have historically been relatively stable. However, our railroad business can be negatively affected by weather conditions that make it difficult for sawmills that provide our raw material to harvest timber from the forests. Additionally, some of our Class I railroad customers, who make up the largest portion of our business, may reduce inventory levels at certain times to manage working capital, which can adversely affect our volumes and profitability during certain periods.

Beginning in the third quarter, we have experienced reduced volumes of untreated crossties due to increased competition from lumber markets. This competition has resulted in higher prices and reduced availability for untreated crossties that may result in reduced sales volumes for treated crossties for us in 2014.

We also sell crossties to commercial customers consisting primarily of short-line railroads, whose buying patterns have historically been influenced by general economic conditions. As a result, during recessionary periods, sales volumes to our commercial customers have typically been reduced, resulting in lower revenues and profitability for our business.

Seasonality and Effects of Weather on Operations

Our quarterly operating results fluctuate due to a variety of factors that are outside of our control, including inclement weather conditions, which in the past have affected operating results. Operations at several facilities have at times been reduced during the winter months. Moreover, demand for some of our products declines during periods of inclement weather. As a result of the foregoing, we anticipate that we may experience material fluctuations in quarterly operating results. Historically, our operating results have been significantly lower in the first and fourth calendar quarters as compared to the second and third calendar quarters.

Results of Operations Comparison of Three Months Ended September 30, 2013 and 2012

Consolidated Results

Net sales for the three months ended September 30, 2013 and 2012 are summarized by segment in the following table:

	<i>Three Months Ended September 30,</i>		
	<i>2013</i>	<i>2012</i>	<i>% Change</i>
<i>(Dollars in millions)</i>			
Carbon Materials and Chemicals	\$ 241.6	\$ 241.1	0%
Railroad and Utility Products and Services	153.6	146.8	+5%
	\$ 395.2	\$ 387.9	+2%

CMC net sales increased by \$0.5 million. Lower sales volumes for phthalic anhydride and lower sales prices for pitch were offset by higher sales volumes for carbon black feedstock and higher prices for naphthalene. The reduced sales volumes for

phthalic anhydride were driven partly by competition from European imports, and the lower sales prices for pitch were driven by lower prices in the competitive Middle East market.

RUPS net sales increased by \$6.8 million or five percent. The increase was due mainly to higher sales volumes for utility poles mainly as a result of the acquisition of a utility pole business in Australia in November 2012. Lower sales volumes for untreated crossties and lower sales prices for commercial crossties were partially offset by higher sales volumes for treated crossties.

Cost of sales as a percentage of net sales was 84 percent for the quarter ended September 30, 2013 compared to 85 percent for the quarter ended September 30, 2012 due mainly to \$3.1 million of charges related to a plant outage and a pitch tank leak in the prior year quarter combined with an environmental reserve reversal of \$1.1 million in the quarter ended September 30, 2013 related to the sale of land from a former wood treating site in Australia.

Depreciation and amortization for the quarter ended September 30, 2013 was \$0.5 million higher when compared to the prior year period due mainly to the acquisition of a utility pole plant in Australia in November 2012 and higher capital spending levels in 2013.

Selling, general and administrative expenses for the quarter ended September 30, 2013 were \$0.7 million lower when compared to the prior year period due mainly to lower pension and compensation expense.

Other income for the quarter ended September 30, 2013 was \$0.7 million higher when compared to the prior year due to a gain on sale of land in the third quarter of 2013.

Interest expense for the quarter ended September 30, 2013 was \$0.2 million lower than the prior period due to lower average borrowings on the Company's revolving credit facility.

Income taxes for the quarter ended September 30, 2013 were \$5.8 million higher when compared to the prior year period due to an increase in pre-tax income of \$9.2 million and the favorable impact of discrete tax items partially offset by an increase in the Company's effective income tax rate. The Company's effective income tax rate for the quarter ended on September 30, 2013, exclusive of discrete items, was 46.4 percent as compared to the prior year effective income tax rate of 35.2 percent. The increase in the effective income tax rate is primarily due to changes in the geographical mix of pre-tax earnings.

Segment Results

Segment operating profit for the quarter ended September 30, 2013 and 2012 is summarized by segment in the following table:

	<i>Three Months Ended September 30,</i>		
	<i>2013</i>	<i>2012</i>	<i>% Change</i>
<i>(Dollars in millions)</i>			
Operating profit:			
Carbon Materials and Chemicals	\$ 21.8	\$ 18.4	+18%
Railroad and Utility Products and Services	17.8	12.8	+39%
Corporate	(0.5)	(0.4)	-25%
	\$ 39.1	\$ 30.8	+27%
Operating profit as a percentage of net sales:			
Carbon Materials and Chemicals	9.0%	7.6%	+1.4%
Railroad and Utility Products and Services	11.6%	8.7%	+2.9%
	9.9%	7.9%	+2.0%

CMC operating profit increased by \$3.4 million or 18 percent. Operating profit as a percentage of net sales for CMC increased to 9.0 percent from 7.6 percent in the prior year quarter. Operating profit for the three months ended September 30, 2012 was negatively affected by \$3.1 million of charges related to a plant outage and a pitch tank leak.

RUPS operating profit increased by \$5.0 million or 39 percent. Operating profit as a percentage of net sales for RUPS increased to 11.6 percent from 8.7 percent in the prior year quarter. Operating profit for the three months ended September 30, 2013 was positively affected by higher sales volumes for treated railroad crossties combined with the acquisition

of a utility pole business in Australia in November 2012. Additionally, charges of \$1.2 million related to the June 2012 closing of our Grenada wood treating facility were partially offset by \$1.1 million of income from environmental reserve reversals related to the third quarter 2013 sale of our former utility pole plant in Australia.

Results of Operations *Comparison of Nine Months Ended September 30, 2013 and 2012*

Consolidated Results

Net sales for the nine months ended September 30, 2013 and 2012 are summarized by segment in the following table:

	<i>Nine months ended September 30,</i>		
	<i>2013</i>	<i>2012</i>	<i>% Change</i>
<i>(Dollars in millions)</i>			
Carbon Materials and Chemicals	\$ 692.4	\$ 757.3	-9%
Railroad and Utility Products and Services	444.1	422.8	+5%
	\$ 1,136.5	\$ 1,180.1	-4%

CMC net sales decreased by \$64.9 million or nine percent. Lower sales volumes for carbon pitch and phthalic anhydride and lower sales prices for carbon pitch more than offset higher sales volumes for carbon black feedstock and higher sales prices for naphthalene. Lower sales volumes for pitch were driven by lower volumes from Chinese operations into the Middle East, lower volumes from Australian operations due to smelter closures in 2012, and lower volumes of pitch in Europe due to smelter closures and difficult economic conditions. Lower sales prices for pitch were due to competition for market share in the Middle East for China operations and lower demand for pitch in Europe due to smelter closures and weak economic conditions. Lower sales volumes for phthalic anhydride were driven mainly by increased volumes of lower priced European imports.

RUPS net sales increased by \$21.3 million or five percent. The increase was due mainly to higher sales volumes for treated railroad crossties and the acquisition of a utility pole business in Australia in November 2012.

Cost of sales as a percentage of net sales was 85 percent for the nine months ended September 30, 2013, the same as for the nine months ended September 30, 2012.

Depreciation and amortization for the nine months ended September 30, 2013 was \$0.7 million higher when compared to the prior year period due mainly to the acquisition of a utility pole business in Australian in November 2012 and higher capital expenditures in 2013, which more than offset a \$0.6 million impairment charge in the prior year period.

Selling, general and administrative expenses for the nine months ended September 30, 2013 were \$2.9 million lower when compared to the prior year period due mainly to lower compensation and pension expense.

Other income for the nine months ended September 30, 2013 was \$1.1 million higher when compared to the prior year period due mainly to gains on sales of land totaling \$1.8 million in the nine months ended September 30, 2013, which more than offset lower equity income in 2013.

Interest expense for the nine months ended September 30, 2013 was \$0.6 million lower than the prior period due to lower average borrowings on the Company's revolving credit facility.

Income taxes for the nine months ended September 30, 2013 were \$0.8 million higher when compared to the prior year period due primarily to an increase in the Company's effective income tax rate partially offset by a decrease in pre-tax income of \$6.5 million and the favorable impact of discrete tax items. The Company's effective income tax rate prior to discrete items for the nine months ended September 30, 2013 was 43.0 percent as compared to the prior year period of 34.7 percent. The increase in the Company's effective income tax rate is primarily due to changes in the geographical mix of pre-tax income.

Segment Results

Segment operating profit for the nine months ended September 30, 2013 and 2012 is summarized by segment in the following table:

	<i>Nine Months Ended September</i>		
	<i>2013</i>	<i>2012</i>	<i>% Change</i>
<i>(Dollars in millions)</i>			
Operating profit:			
Carbon Materials and Chemicals	\$ 47.4	\$ 65.1	-27%
Railroad and Utility Products and Services	46.6	36.9	+26%
Corporate	(1.5)	(1.3)	-15%
	\$ 92.5	\$ 100.7	-8%
Operating profit as a percentage of net sales:			
Carbon Materials and Chemicals	6.8%	8.6%	-1.8%
Railroad and Utility Products and Services	10.5%	8.7%	+1.8%
	8.1%	8.5%	-0.4%

CMC operating profit decreased by \$17.7 million or 27 percent. Operating profit as a percentage of net sales for CMC decreased to 6.8 percent from 8.6 percent in the prior year period. Operating profit for the nine months ended September 30, 2013 was negatively affected by lower profitability from European operations due to weak economic conditions combined with lower sales volumes for phthalic anhydride in North America mainly as a result of lower end-market demand combined with increased levels of European imports.

RUPS operating profit increased by \$9.7 million or 26 percent. Operating profit as a percentage of net sales for RUPS increased to 10.5 percent from 8.7 percent in the prior year period. Operating profit for the nine months ended September 30, 2013 was positively affected by higher sales volumes for railroad crossties and the acquisition of a utility pole business in Australia in November 2012. For the nine months ended September 30, 2013 charges of \$2.1 million related to the June 2012 closing of our Grenada wood treating facility were partially offset by \$1.1 million of income from environmental reserve reversals related to the third quarter 2013 sale of our former utility pole plant in Hume, Australia.

Cash Flow

Net cash provided by operating activities was \$65.6 million for the nine months ended September 30, 2013 as compared to net cash provided by operating activities of \$54.5 million for the nine months ended September 30, 2012. The net increase of \$11.1 million in cash from operations is due primarily to lower working capital increases compared to the prior year period, which more than offset lower net income in the first nine months of 2013. The lower working capital increases related mainly to a reduction in inventory levels primarily as a result of lower RUPS inventory of wood crossties due to availability. Funding of post-retirement pension plans totaled \$19.9 million in 2013 as compared to \$15.7 million in 2012.

Net cash used in investing activities was \$27.0 million for the nine months ended September 30, 2013 as compared to net cash used in investing activities of \$15.1 million for the nine months ended September 30, 2012. The increase in net cash used in investing activities of \$11.9 million is due to a higher level of capital expenditures in the first nine months of 2013 compared to the prior year period, primarily related to spending on the new coal tar distillation plant located in Pizhou City, Jiangsu Province, China.

Net cash used in financing activities was \$31.5 million for the nine months ended September 30, 2013 as compared to net cash used by financing activities of \$27.0 million for the quarter ended September 30, 2012. The increased in cash used in financing activities of \$4.5 million is due mainly to higher common stock repurchases of \$9.3 million in the nine months ended September 30, 2013.

Dividends paid were \$15.3 million in the nine months ended September 30, 2013 as compared to dividends paid of \$14.5 million for the nine months ended September 30, 2012. Dividends paid in the first nine months of 2013 reflect an increase in the quarterly dividend to 25 cents per common share compared to 24 cents per common share in the prior year.

On November 6, 2013, our board of directors declared a quarterly dividend of 25 cents per common share, payable on January 6, 2014 to shareholders of record as of November 18, 2013.

Liquidity and Capital Resources

Restrictions on Dividends to Koppers Holdings

Koppers Holdings depends on the dividends from the earnings of Koppers Inc. and its subsidiaries to generate the funds necessary to meet its financial obligations, including the payment of any declared dividend of Koppers Holdings. Koppers Inc.'s credit agreement prohibits it from making dividend payments to us unless (1) such dividend payments are permitted by the indenture governing Koppers Inc.'s Senior Notes and (2) no event of default or potential default has occurred or is continuing under the credit agreement. The indenture governing Koppers Inc.'s Senior Notes restricts its ability to finance our payment of dividends if (1) a default has occurred or would result from such financing, (2) a restricted subsidiary of Koppers Inc. which is not a guarantor under the indenture is not able to incur additional indebtedness (as defined in the indenture), and (3) the sum of all restricted payments (as defined in the indenture) have exceeded the permitted amount (which we refer to as the basket) at such point in time.

The basket is governed by a formula based on the sum of a beginning amount, plus or minus a percentage of Koppers Inc.'s consolidated net income (as defined in the indenture), plus the net proceeds of Koppers Inc.'s qualified stock issuance or conversions of debt to qualified stock, plus the net proceeds from the sale of or a reduction in an investment (as defined in the indenture) or the value of the assets of an unrestricted subsidiary which is designated a restricted subsidiary. At September 30, 2013 the basket totaled \$211.0 million. Notwithstanding such restrictions, the indenture governing Koppers Inc.'s Senior Notes permits an additional aggregate amount of \$20.0 million each fiscal year to finance dividends on the capital stock of Koppers Holdings, whether or not there is any basket availability, provided that at the time of such payment, no default in the indenture has occurred or would result from financing the dividends.

In addition, certain required coverage ratios in Koppers Inc.'s revolving credit facility may restrict the ability of Koppers Inc. to pay dividends. See Debt Covenants.

Liquidity

The Koppers Inc. revolving credit facility agreement provides for a revolving credit facility of up to \$300.0 million at variable interest rates. Borrowings under the revolving credit facility are secured by a first priority lien on substantially all of the assets of Koppers Inc. and its material domestic subsidiaries. The revolving credit facility contains certain covenants for Koppers Inc. and its restricted subsidiaries that limit capital expenditures, additional indebtedness, liens, dividends and investments or acquisitions. In addition, such covenants give rise to events of default upon the failure by Koppers Inc. and its restricted subsidiaries to meet certain financial ratios. We have notified our banking group in November 2013 that we intend to exercise our right under the revolving credit facility agreement to increase the revolving credit facility to \$350.0 million subject to credit approval.

As of September 30, 2013, we had \$286.9 million of unused revolving credit availability for working capital purposes after restrictions by various debt covenants and certain letter of credit commitments. As of September 30, 2013, \$9.1 million of commitments were utilized by outstanding letters of credit.

The following table summarizes our estimated liquidity as of September 30, 2013 (*dollars in millions*):

Cash and cash equivalents ⁽¹⁾	\$ 72.4
Amount available under revolving credit facility	286.9
Amount available under other credit facilities	5.6
Total estimated liquidity	\$ 364.9

(1) Cash includes approximately \$64 million held by foreign subsidiaries, which if repatriated to the United States, would incur an estimated cash tax cost of approximately \$21 million.

Our estimated liquidity was \$365.7 million at December 31, 2012.

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

In June 2012, we filed a registration statement on Form S-3 with the Securities and Exchange Commission which gives us the opportunity to offer common stock, debt securities, preferred stock, depositary shares, warrants and units (or a combination of

these securities) from time to time in one or more offerings. In addition, Koppers Inc. may sell debt securities from time to time under the registration statement. This registration statement expires on June 26, 2015.

Our need for cash in the next twelve months relates primarily to contractual obligations which include debt service, purchase commitments and operating leases, as well as for working capital, capital maintenance programs and mandatory and voluntary defined benefit plan funding. We may also use cash to pursue potential strategic acquisitions. Capital expenditures in 2013, excluding acquisitions and the construction of a new coal tar facility in China, are expected to total approximately \$40 million. In October 2012, a subsidiary of the Company signed an agreement to construct a coal tar facility in China. Construction has commenced and is expected to be completed by mid-2014. The Company's expected capital spending for the majority-owned facility is approximately \$25 million for the remainder of 2013 and will be financed by available cash and incremental financing. We expect to borrow up to approximately \$32 million on a committed loan facility to fund our construction costs. We anticipate that the committed loan facility agreement will close in November 2014.

We believe that our cash flow from operations and available borrowings under the revolving credit facility will be sufficient to fund our anticipated liquidity requirements for at least the next twelve months. In the event that the foregoing sources are not sufficient to fund our expenditures and service our indebtedness, we would be required to raise additional funds.

Debt Covenants

The covenants that affect availability of the revolving credit facility and which may restrict the ability of Koppers Inc. to pay dividends include the following financial ratios:

- i The fixed charge coverage ratio, calculated as of the end of each fiscal quarter for the four fiscal quarters then ended, is not permitted to be less than 1.10. The fixed charge coverage ratio at September 30, 2013 was 1.5.
- i The leverage ratio, calculated as of the end of each fiscal quarter for the four fiscal quarters then ended, is not permitted to exceed 4.0. The leverage ratio at September 30, 2013 was 1.73.

We are currently in compliance with all covenants in the credit agreement governing the revolving credit facility.

At September 30, 2013, Koppers Inc. had \$300.0 million principal value outstanding of Senior Notes. The Senior Notes include customary covenants that restrict, among other things, our ability to incur additional debt, pay dividends or make certain other restricted payments, incur liens, merge or sell all or substantially all of the assets or enter into various transactions with affiliates. We are currently in compliance with all covenants in the Senior Notes indenture.

Legal Matters

The information set forth in Note 16 to the Condensed Consolidated Financial Statements of Koppers Holdings Inc. included in Item 1 of this Part I is incorporated herein by reference.

Recently Issued Accounting Guidance

There is no recently issued accounting guidance that is expected to have a material impact on the Company.

Critical Accounting Policies

There have been no material changes to the Company's critical accounting policies as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Environmental and Other Matters

The information set forth in Note 16 to the Condensed Consolidated Financial Statements of Koppers Holdings Inc. included in Item 1 of Part I is incorporated herein by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Edgar Filing: Koppers Holdings Inc. - Form 10-Q

There are no material changes to the disclosure on this matter made in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures were effective as of the end of the period covered by this report. There was no change in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

The information set forth in Note 16 to the Condensed Consolidated Financial Statements of Koppers Holdings Inc. included in Item 1 of Part I of this report is incorporated herein by reference.

ITEM 1A. RISK FACTORS

There have been no material changes to the Risk Factors previously disclosed in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth information regarding Koppers Holdings' repurchases of shares of its common stock during the three months ended September 30, 2013:

<i>Period</i>		<i>Total Number of Common Shares Purchased⁽¹⁾</i>	<i>Average Price paid per Common Share</i>	<i>Approximate Dollar</i>	
				<i>Total Number of Common Shares Purchased as Part of Publicly announced Plans or Programs</i>	<i>Value of Common Shares that May Yet be Purchased Under the Plans or Programs (Dollars in millions)</i>
July 1	July 31	0	\$ 0.00	0	\$ 0.0
August 1	August 31	330,000	\$ 39.50	330,000	\$ 55.5
September 1	September 30	69,900	\$ 39.58	69,900	\$ 52.8

(1) On November 2, 2011, the board of directors approved a common stock repurchase program to allow for the repurchase of up to \$75.0 million of common stock from time to time on the open market or in privately negotiated transactions. This column discloses the number of shares purchased on the open market pursuant to such program during the indicated time periods.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 6. EXHIBITS

10.81*	Amendment No. 3 to Employment Agreement with Steven R. Lacy effective August 7, 2013
10.82*	Amendment No. 4 to Employment Agreement with Brian McCurrie effective August 7, 2013
12.1*	Computation of ratio of earnings to fixed charges
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KOPPERS HOLDINGS INC.

(REGISTRANT)

Date: November 7, 2013

By: /s/ LEROY M. BALL

Leroy M. Ball

Vice President and Chief Financial Officer
(Principal Financial Officer,

Principal Accounting Officer and Duly Authorized Officer)